Where the smart money goes

(Page 26)

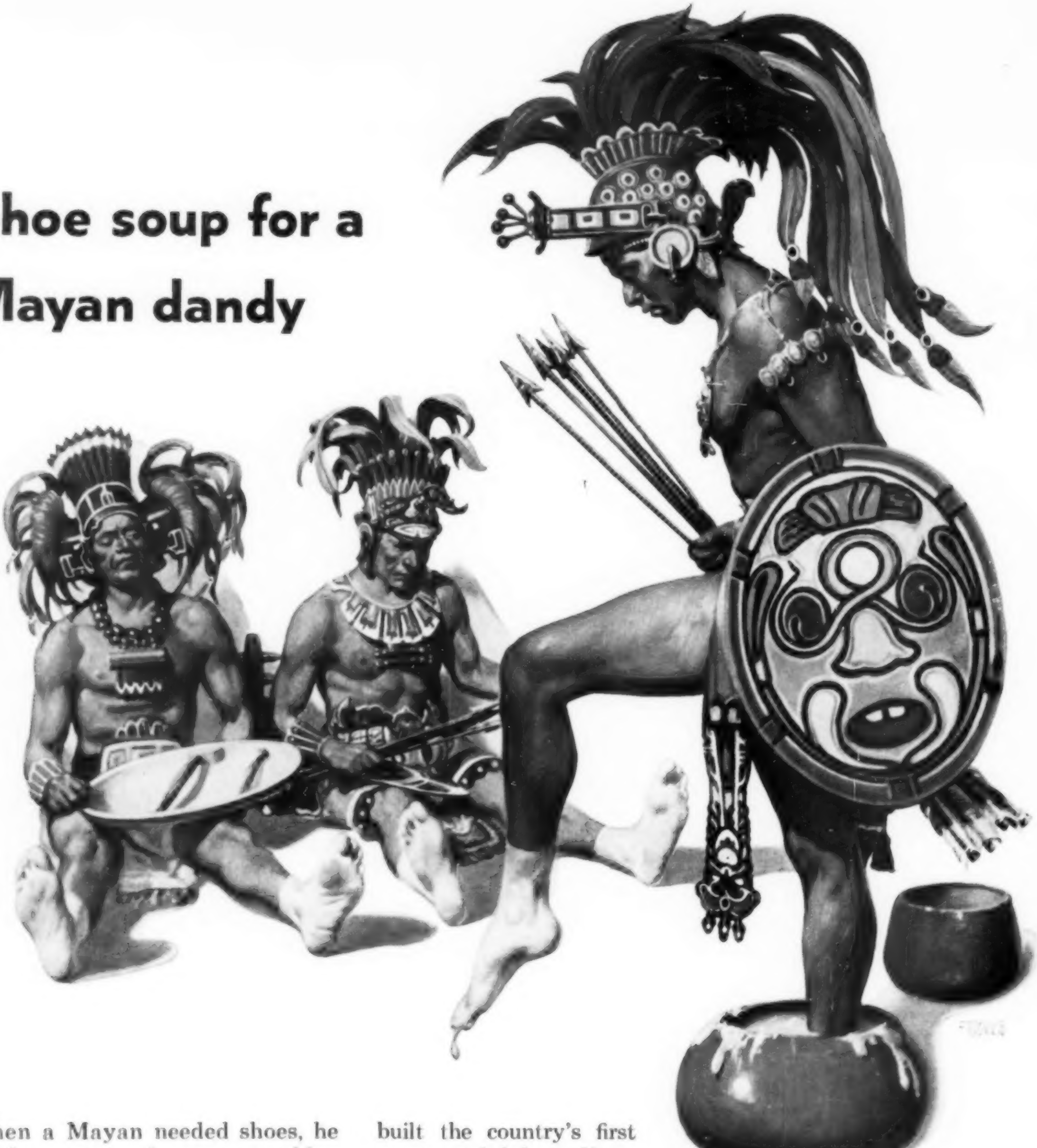
INDEX
175
150
125
100
75
50
25
0

BUSINESS WEEK

A McGRAW-HILL PUBLICATION FIFTY CENTS AUG. 2, 1958

Easy money brings new life to mass home building (Industries)

Shoe soup for a Mayan dandy



The Mayan and other Indians of Latin America discovered a unique material for making clothing and footwear.

When a Mayan needed shoes, he simply went to the nearest rubber tree . . . *and poured himself a pair.* By dipping his feet repeatedly into a bath of raw latex, he fashioned a kind of shoe. The style was crude, but the fit was perfect.

Rubber goods have come a long way since then, and the development of *synthetic* rubber has been an important factor in this growth—especially since 1941 when Shell Chemical built the country's first commercial butadiene plant. Today over twenty different types of Shell synthetic rubber go into such varied products as shoe soles and heels, tires, belting, floor tile, wire and cable insulation, and hundreds more.

Commercial production of this strong and versatile material is another of the many ways Shell Chemical helps industry with man-made raw materials.

Shell Chemical Corporation

Chemical Partner of Industry and Agriculture

TORRANCE, CALIFORNIA

SHELL

IN BUSINESS THIS WEEK August 2, 1958

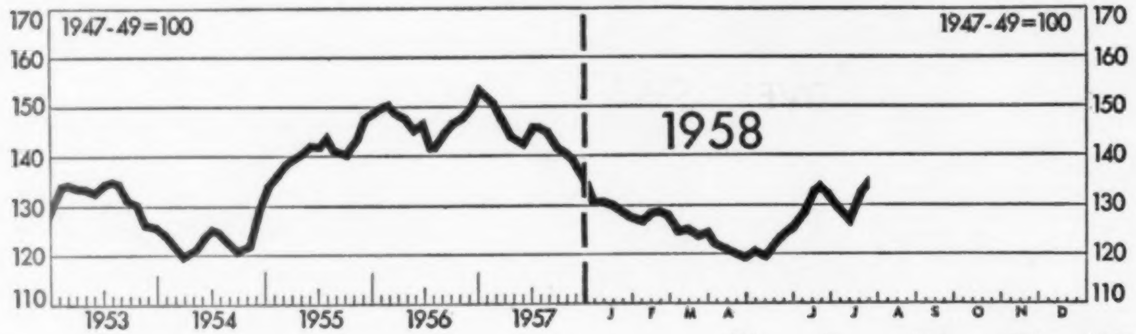
GENERAL BUSINESS

THE DEPARTMENTS

BUSINESS WEEK is published weekly by McGraw-Hill Publishing Co., Inc., at 99 N. Broadway, Albany 1, N. Y. Entered as second class matter Dec. 4, 1936 at the Post Office at Albany, N. Y. under act of Mar. 3, 1879. Subscriptions $6 a year in U. S. A.

NUMBER 1509

FIGURES OF THE WEEK



	1946 Average	Year Ago	Month Ago	Week Ago	§ Latest Week
BUSINESS WEEK INDEX (chart)	91.6	147.1	132.7	†133.0	*135.3
PRODUCTION					
Steel ingot (thous. of tons)	1,281	2,033	1,376	†1,546	**1,586**
Automobiles and trucks	62,880	150,605	127,238	†109,811	**108,870**
Engineering const. awards (Eng. News-Rec. 4-wk daily av. in thous.)	$17,083	$68,478	$78,533	$96,249	**$92,847**
Electric power (millions of kilowatt-hours)	4,238	12,243	11,757	12,257	**12,319**
Crude oil and condensate (daily av., thous. of bbls.)	4,751	6,922	6,332	6,528	**6,536**
Bituminous coal (daily av., thous. of tons)	1,745	1,633	1,486	†1,054	**1,273**
Paperboard (tons)	167,269	282,617	277,429	255,448	**289,506**
TRADE					
Carloadings: mfrs., miscellaneous and l.c.l. (daily av., thous. of cars)	82	65	58	52	**54**
Carloadings: all others (daily av., thous. of cars)	53	59	47	40	**43**
Department store sales index (1947-49 = 100, not seasonally adjusted)	90	108	117	116	**110**
Business failures (Dun & Bradstreet, number)	22	228	335	279	**264**
PRICES					
Spot commodities, daily index (Moody's, Dec. 31, 1931 = 100)	311.9	428.3	398.5	400.8	**403.0**
Industrial raw materials, daily index (BLS, 1947-49 = 100)	††73.2	92.7	83.1	85.1	**85.7**
Foodstuffs, daily index (BLS, 1947-49 = 100)	††75.4	86.2	90.7	89.3	**89.2**
Print cloth (spot and nearby, yd.)	17.5¢	17.9¢	17.4¢	17.6¢	**17.7¢**
Finished steel, index (BLS, 1947-49 = 100)	††76.4	181.5	181.5	181.5	**181.5**
Scrap steel composite (Iron Age, ton)	$20.27	$53.50	$35.17	$38.17	**$40.83**
Copper (electrolytic, delivered price, E & MJ, lb.)	14.045¢	28.950¢	25.325¢	26.480¢	**26.500¢**
Wheat (No. 2, hard and dark hard winter, Kansas City, bu.)	$1.97	$2.11	$1.85	$1.85	**$1.91**
Cotton, daily price (middling, 1 in., 14 designated markets, lb.)	**30.56¢	33.90¢	34.86¢	34.90¢	**34.87¢**
Wool tops (Boston, lb.)	$1.51	$2.22	$1.65	$1.75	**$1.72**
FINANCE					
500 stocks composite, price index (S&P's, 1941-43 = 10)	17.08	48.16	45.12	46.09	**46.96**
Medium grade corporate bond yield (Baa issues, Moody's)	3.05%	4.75%	4.53%	4.54%	**4.56%**
Prime commercial paper, 4 to 6 months, N. Y. City (prevailing rate)	¾-1%	3⅞%	1½%	1½%	**1½%**
BANKING (Millions of Dollars)					
Demand deposits adjusted, reporting member banks	††45,820	55,570	55,266	55,654	**56,440**
Total loans and investments, reporting member banks	††71,916	86,244	95,833	94,153	**93,825**
Commercial and agricultural loans, reporting member banks	††9,299	31,783	30,356	29,945	**29,651**
U. S. gov't guaranteed obligations held, reporting member banks	††49,879	25,223	32,615	32,154	**32,066**
Total federal reserve credit outstanding	23,888	25,456	26,170	26,398	**26,328**

MONTHLY FIGURES OF THE WEEK

		1946 Average	Year Ago	Month Ago	Latest Month
McGraw-Hill Indexes of New Orders (1950 = 100)					
New orders for machinery, except electrical (seasonally adjusted)	**June**	N.A.	144	129	**138**
Construction & mining machinery	**June**	N.A.	141	181	**180**
Engines & turbines	**June**	N.A.	159	92	**123**
Pumps & compressors	**June**	N.A.	214	189	**206**
Metalworking machinery	**June**	N.A.	170	80	**87**
Other industrial machinery	**June**	N.A.	132	130	**145**
Office equipment	**June**	N.A.	222	171	**176**
New contracts for industrial building	**June**	N.A.	134	87	**109**
Imports (in millions)	**April**	$412	$1,119	$1,072	**$1,057**

** Preliminary, week ended July 26, 1958.*
† Revised.
†† Estimate.
*** Ten designated markets, middling 1⅛ in.*
§ Date for 'Latest Week' on each series on request.
N.A.—not available at press time.

THE PICTURES—Cover—Mike Shea; 17—George Tames; 22—(top) Sovfoto, (cen. lt.) U.P.I., (cen. rt.) W.W., (bot. lt.) W.W., (bot. rt.) Phil Burchman; 23—(bot. lt.) Sovfoto, (bot. rt.) Phil Burchman, (top) W.W.; 38, 39—Herb Kratovil; 50—Fleet Owner; 54, 55—Mike Shea; 67—Sol Sanders; 87—Grant Compton.

BUSINESS WEEK • AUGUST 2, 1958 • NUMBER 1509

(with which are combined The Annalist and the Magazine of Business) Published weekly by McGraw-Hill Publishing Company, Inc., James H. McGraw (1860-1948), Founder. **PUBLICATION OFFICE:** 99-129 North Broadway, Albany 1, N. Y. See panel below for directions regarding subscriptions or change of address. **EXECUTIVE, EDITORIAL, CIRCULATION and ADVERTISING OFFICES:** McGraw-Hill Building, 330 West 42nd Street, N. Y. 36, N. Y. Donald C. McGraw, President; Joseph A. Gerardi, Executive Vice President; L. Keith Goodrich, Vice President and Treasurer; John J. Cooke, Secretary; Nelson Bond, Executive Vice President, Publications Division; Ralph B. Smith, Vice President and Editorial Director; Joseph H. Allen, Vice President and Director of Advertising Sales; A. R. Venezian, Vice President and Circulation Coordinator. Subscriptions to Business Week are solicited only from management men in business and industry. **POSITION AND COMPANY CONNECTION MUST BE INDICATED ON SUBSCRIPTION ORDERS. SEND TO ADDRESS SHOWN IN BOX BELOW.** United States subscription rates for individuals in the field of the publication, $6 per year, single copies 50¢. Second class mail privileges authorized at Albany, N. Y. Printed in U. S. A. Title registered in U. S. Patent Office.

SUBSCRIBERS: Send subscription correspondence and change of address to Fulfillment Manager, BUSINESS WEEK, 330 W. 42nd Street, N. Y. 36, N. Y. Subscribers should notify Fulfillment Manager promptly of any change of address, giving old as well as new address, and including postal zone number, if any (official Post Office request). If possible, enclose an address label from a recent issue of the magazine. Since copies are addressed one to two issues in advance, please allow one month for change of address to become effective.

POSTMASTER . . . Please send form 3579 to Business Week, 330 W. 42nd Street, N. Y. 36, N. Y.

READERS REPORT

One to a Company

Dear Sir:

How can we lick the depression? I think I may have an answer. . . .

Consider these facts: There are about 4-million operating businesses in the United States employing up to 100 workers. There are somewhat more than 4-million unemployed workers in the nation. I think there is a significant relationship between these two figures.

Most of the 4-million firms can afford to hire one extra worker. Many can afford to hire half a dozen or more. If every business manager in the nation would take the initiative and expand his working force, unemployment virtually would be wiped out.

Once this feat has been accomplished, business confidence would be restored, consumers would resume their normal buying habits, factories would hum. . . .

I so earnestly believe that this "hire an extra worker" plan will help bring back good times that I have added two extra workers to the staff of my firm. . . .

V. N. THOEN

PRESIDENT
MINNESOTA ASSN. OF CREDIT COUNSELORS
MINNEAPOLIS, MINN.

Administered Price

Dear Sir:

Industries in the administered price belt claim to be effectively competitive even if they do not compete on price. No matter how you slice it, price is still the most important of the competitive factors, granted that there are others. Business people who are not big enough to have purchased a piece of the market place cannot hope to nullify competitive factors that they find troublesome. At a minimum, effective or not, administered price industries clearly compete less than smaller businesses. . . .

Some economists tell us that non-competitive price decisions in major segments of our economy are here to stay and that they are not an unmixed evil. If so they should be thoroughly reviewed by competent, public-spirited authority prior to enactment. In these days of heavy international economic competition, we cannot afford big industries which legislate themselves record-breaking profits while their production lags and acres of plant stand idle.

W. SHEA

NEW YORK, N. Y.

Industry's chemicals:

WHAT'S MAKING NEWS?

The big news in industry today can often be reduced to a chemical formula. Chemistry makes important industrial news in so many ways that top management men find it difficult to keep up with developments. Yet they *must* keep up because advances in chemistry may have vital meaning for them. These messages are designed to let you know, quickly and easily, what's happening in chemistry.

NUMBER 2

You may wish to check certain items in this advertisement and forward to those concerned in your company.

ROUTE TO:

"OCTOPUS" CHEMICAL CLEARS TROUBLED WATERS

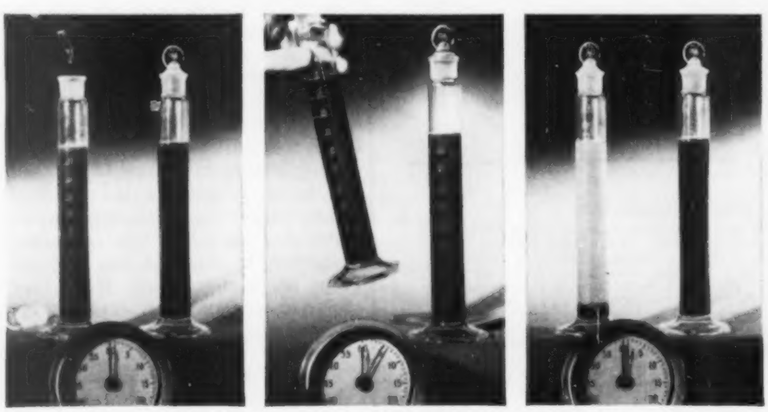
A boon to the mining industry since its introduction, Separan® now separates good from bad in chemical processing, waste disposal, the pulp and paper industry and many other fields

When Separan went into commercial production in 1954, Dow research men knew they had an unusual chemical. They were startled, however, by the impressive success of Separan in the mining field. This success was a tribute to the ingenuity of many mining engineers (who discovered *where* to use Separan) as well as to the exhaustive efforts of Dow's technical service team (who knew *how* to use it).

With surprising speed Separan moved into other industries, and, unlike the solids it processes, hasn't settled yet!

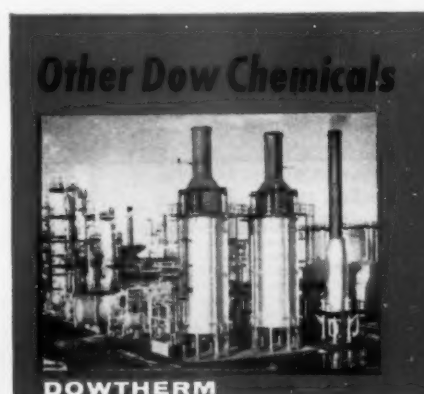
What flocculation does. Separan is a flocculating agent, a mouthful word to describe its basic function of gathering solids that are dispersed in solution into small masses, or flocs, causing them to settle rapidly to the bottom for either recovery or disposal. Stated simply, Separan separates what is wanted from what is not.

How does Separan work? It has a long, spiral-shaped molecule with octopus-like tentacles that grasp dispersed particles so that increased weight causes them to settle rapidly to the bottom. In a single pound of Separan there are millions of such tentacles, all itching to carry away the sludge in industrial processing fluids—or to gather up the pay load.



Demonstration of remarkable flocculating speed of Separan.

(1) A few drops of Separan added to dirty waste water. (2) Graduate mixed gently. (3) In a moment, solids have settled. Compare with untreated waste water in other graduate.



Dowtherm® A, the modern heat-transfer medium, was utilized by Canada's Imperial Oil, Ltd., in a process heating system for new lube oil refinery. High temperature stability, lower skin temperatures and ease of operation influenced choice.

Many important industrial uses. Paper manufacturers use it to clarify the lake-size quantities of water they use in processing. Separan also separates solids from liquids in the clarification of coal-washery water and settles mud in the manufacture of alum. Industrial plant men long concerned with stream pollution problems are raving about the way Separan helps clear effluent waters. With Separan, industrial wastes can be economically removed from process water before it's returned to the stream, often saving valuable materials which would otherwise have been lost.

Dow "family of flocculants". At this time, there are two Separan products designated Separan NP10 and Separan NP20. Dow promises there will be more in the near future. Needs of various industries for specialized flocculants are spurring development of a complete line, designed to fit many industrial requirements.

Synthetic Gum:

● *New ally for food manufacturers*

If mother was really as talented in the kitchen as legend insists, she did it pretty much on her own. Today's young wife has countless allies in the food industry and one of the stand-bys is Methocel®, as contained in prepared foods.

Used as a thickener, emulsifier, stabilizer and moisture retainer, it is colorless, odorless and tasteless. One common use is in canned fruit pie fillings where it provides consistent fluidity,

Filling makes the pie—and Methocel keeps the filling firm and consistent, hot or cold.

hot or cold. Its non-ionic quality means it is not affected by the natural acidity of fruit. Food men find Methocel invaluable in endless convenience items. As a redispersing agent in dehydrated fruits and vegetables, it provides a rehydrated product that smacks of original goodness. Methocel is good news for the food business—and has applications in an almost endless list of other fields . . . drugs, cosmetics, paint, leather and paper, to name a few.

Chelating Agents:

● *Poison antidote of the future?*

Exciting possibilities in the medical field are beginning to emerge from research on chelating agents. Heretofore known as industrial chemicals, these ingenious compounds grasp metallic ions suspended in liquid in a claw-like hold, rendering them harmless.

Though still in the investigative stage, possible medical use of these metal-grabbing chemicals provides fascinating food for thought. Chelation, for example, could be used to counter calcium deposits on bones or to rid the body of poisonous lead accumulations. And it may offer virtually the only hope of an antidote for plutonium poisoning.

Effective medical use of the chelates is for the future, but industry is using them *today* in a hundred different ways. Whenever a manufacturing process is affected by impurities in water —and the instances are endless—the chelates come into their own. In making rubber, dyeing textiles, in cleaning scale from boilers and heat exchangers, the chelates do an important job cheaply and effectively. Dow chelating agents are sold as Versene®, Versenol® and Versenex*. They're worth investigating.

★ ★ ★ ★

For further information about these and hundreds of other profit-building chemicals, contact THE DOW CHEMICAL COMPANY, Midland, Michigan, Chemicals Sales Department 851B.

*TRADEMARK OF THE DOW CHEMICAL COMPANY

NEW AND NEWS WORTHY

DOWANOL

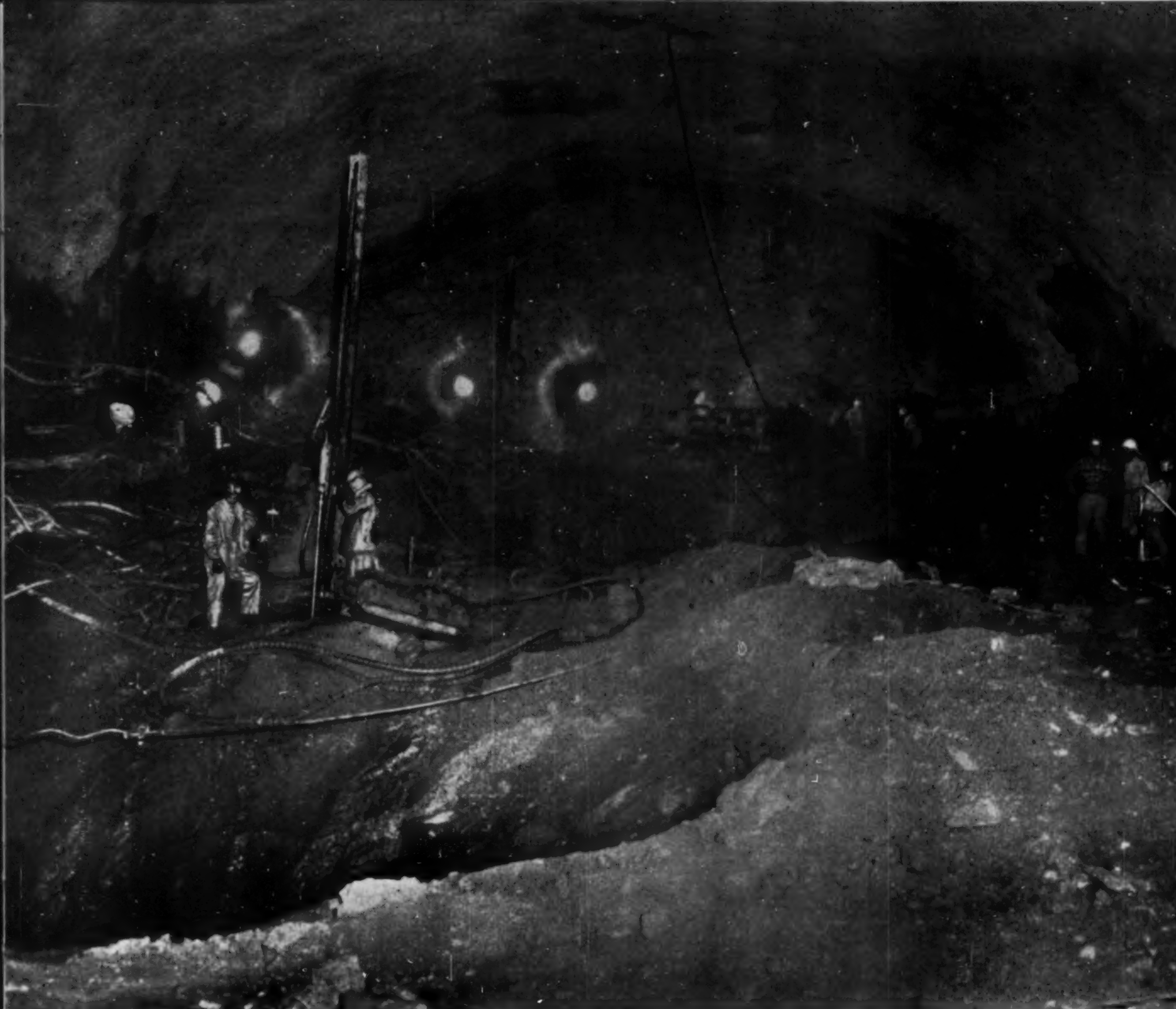
Combining the solvent properties of glycols, alcohols and ketones, Dowanol® products offer the widest range of organic solubility available in any modern solvents. Paint, brake fluid, ink, other interested manufacturers should have new 52-page booklet.

SODA ASH

In the processing industries, this versatile product is almost indispensable. Makers of glass, soap, paper, textiles and many different chemicals get quick delivery from Dow's plants in the South and Southwest. Request 44-page booklet on letterhead.

TRICHLOROETHYLENE

The vitally important missile industry is making widespread use of a new high-purity trichloroethylene developed by Dow especially for use in cleaning missile hardware. Minimum residue on the cleaned parts reduces the danger of misfiring.



Gardner-Denver "Air Trac"® drills help carve huge cavern for Haas Powerhouse on Kings River, Calif.

Underground powerhouse may start new trend

Tucked away inside a solid rock chamber 500 feet vertically below the surface and 2000 feet inside a granite mountain, a new powerhouse is being built for Pacific Gas & Electric Company's huge Kings River, Calif., hydroelectric project.

Known as the Haas Powerhouse, the hidden structure will be about 100 feet high, 170 feet long and 50 feet wide. It will be the first underground powerhouse to be built in this country since 1913—and engineers are speculating as to whether it will start a new trend.

Gardner-Denver "Air Trac" drills—mobile and fast—are being used in drilling blast holes for excavating the big cavern.

Here, as on many another important construction project, Gardner-Denver equipment demonstrates its superior efficiency. *Gardner-Denver Company, Quincy, Illinois.*

Close-up view of Gardner-Denver "Air Trac" drill in cavern.

ENGINEERING FORESIGHT—PROVED ON THE JOB
IN GENERAL INDUSTRY, CONSTRUCTION, PETROLEUM AND MINING

GARDNER - DENVER

GARDNER-DENVER Since 1859


Sullivan

BUSINESS OUTLOOK

BUSINESS WEEK
AUG. 2, 1958

A BUSINESS WEEK SERVICE

Signs of business improvement, however slight, may be seen almost anywhere you look—in lines as diverse as rayon and steel, for example.

How far and how fast we go now depends mostly on the consumer.

One element of demand is pretty predictable—the rate of **government spending.** Outlays at all levels—federal, state, local—clearly are scheduled to continue rising.

But **business investment** is less certain. How much goods the ultimate consumer takes off the market holds the key.

This will determine business outlays, first in the matter of **inventories** and, sometime later, investment in **plant and equipment.**

Both price and production trends indicate that the inventory cycle must have just about hit bottom.

This doesn't necessarily mean a return to building stock. It may signal only hand-to-mouth buying for current needs. But **that alone would be a large plus** after the liquidation of recent months.

Purchasing agents aren't likely to step up their buying beyond just covering current needs until and unless the auto companies get active.

Detroit, by all indications, still is holding back. The changeover to new models still is some weeks away for most lines, and the cleanup of old models by dealers is by no means complete.

Moreover, **there's the matter of a union contract to settle.**

—•—

Steel's improvement is, of course, a relative thing. July wasn't a good month by any stretch of the imagination. Yet production edged upward steadily after the low set in the July 4 week.

Each week of the last four has witnessed moderate improvement.

Operations for this week are scheduled at just short of 59% of capacity, according to the American Iron & Steel Institute. That's still below the earlier top in June, and it isn't very profitable.

Yet it isn't bad, vacations and June overbuying considered.

Demand for steel at least is showing enough life so that the expected hike in prices made a tentative appearance this week (page 25).

The advance wasn't posted by the usual price leader, U. S. Steel Corp. nor was it as large as had been talked of earlier.

Armco was the company that broke the ice, and its advance averaged about $4.50 a ton on hot- and cold-rolled sheet and strip, big volume items in the industry.

—•—

First indications that a pickup may be at hand in aluminum came this week. Kaiser Aluminum & Chemical reactivated two potlines, one in Louisiana and the other in Washington. Putting the idle production lines to work boosts the company's operations to 80% from 71%.

—•—

Rayon producers were quick to attribute their price advance on yarns

this week to higher costs. But those costs have prevailed for some time, bringing most companies close to red ink—if not into it.

So the price more probably should be taken as an indication of at least a slightly improved level of demand.

In fact, **viewed in conjunction with stronger prices for cotton goods, it's pretty easy to detect a growing optimism in textiles.**

Along with hopes for a revival, textile people still have vivid memories of hard times for many months. That was underlined on Tuesday when **Burlington Industries and affiliated Pacific Mills cut their dividends.**

—•—

Construction continues to add to its gains (except for the industrial and commercial categories), judged by contract award figures.

• The total compiled by McGraw-Hill's Engineering News-Record for the first 31 weeks of 1958 **pulled 7% ahead of last year.**

• **June contracts broke all records,** exceeding the year-ago level by 18%, according to the F. W. Dodge Corp. listing released this week.

Big construction gains are, of course, concentrated in the field of publicly financed projects and it isn't all highways, for the St. Lawrence Seaway is contributing some big chunks.

The Engineering News-Record compilation places public works 15% ahead of 1957 for the year to date. **But private building still lags the year-earlier figure by about 3%.**

Publicly financed dwellings are making a substantial contribution to residential activity this year. **However, the comeback for private building began to show up clearly in June awards.**

Total residential contracts for the month, F. W. Dodge reports, came to $1,364,000,000, an increase of 20%.

Apartments weighed into this total with a gain of 69%, but there also was a rise of 17% for one- and two-family houses.

—•—

Building materials are beginning to show very distinct effects of the climbing construction trend:

• **Lumber** prices are stronger after a two-year-long slide.

• **Cement** producers, despite a dreary first quarter, now are looking for output to top last year's 289-million bbl.

• **Structural steel** orders in June were the best for the year to date.

—•—

Output of paper and paperboard topped the year-ago level last week.

Of course, this may have been something in the way of a catch-up after vacations. Industry sources are cautious about hailing it as a sure sign that inventory liquidation has ended.

Yet there were signs that the turn might have come in paperboard more than two months ago, and paper (with the exception, possibly, of newsprint) could quite possibly be following now.

July 25, 1909—first successful overwater distance flight by airplane. In a fragile monoplane Louis Blériot crossed the English Channel from Les Baraques to Dover. Distance: 31 miles. Time: 37 minutes. Cargo: one silken flag!

What can Louis Blériot teach the chairman of the board?

Fifty years ago, Louis Blériot demonstrated that air transport is the fastest way to ship overseas.

Today, air cargo is more than just emergency transportation. It's a way to build business, reap greater profits.

Here are the *facts:*

Today it is possible to ship by air for *less* than by sea. Air cargo saves on crating, has no "hidden" charges.

Swift air delivery opens new markets, spurs repeat orders, allows you to reduce inventory and eliminate overseas warehousing.

Air cargo shortens the gap between manufacture and delivery, smooths out production flow, speeds up payments.

And only Pan American offers the Pan Am Profit Lift—*the most comprehensive service of ANY overseas air cargo carrier.*

For further information, contact your cargo agent, forwarder or Pan American.

ONLY THE **PAN AM PROFIT LIFT** GIVES BOTH SHIPPER AND CONSIGNEE ALL FIVE:

Fastest delivery to all the world. No other airline can match Pan Am's number of *direct* flights to and from all 6 continents of the world.

Fastest reservations. Space can be confirmed electronically in 4 seconds. Reserved or unreserved, *all* Clipper* Cargo is *expedited.*

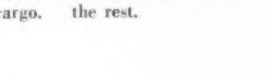
Most experienced air cargo carrier. Pan Am handles 71% more overseas cargo than any other airline. You get *expert* service all the way!

Most modern air fleet. Up-to-the-minute equipment includes pressurized and temperature-controlled planes for even the most "delicate" cargo.

"Doorstep" service from anywhere in the U. S. Just contact your cargo agent, forwarder or Pan Am. Pan Am does the rest.

PAN AM
CLIPPER CARGO

FASTEST DELIVERY TO ALL THE WORLD



*Trade Mark, Reg. U. S. Pat. Off.

Model 5303 L.C.F. features V8 power as standard equipment.

Watch 'em hustle when the work's hot and heavy!

Watch 'em keep at it day after day, as long as there's a load to be hauled. And watch the way they hold down overhead with power and capacity tailored to your job. You can count on it. That kind of stamina and ability to save comes

CHEVROLET TASK·

New Fleetside, one of twelve Task-Force pickup models.

natural to Chevrolet trucks. You get it in Chevy's light-duty Stepside model, the lowest priced popular pickup money can buy. You get it in the high-styled Fleetside pickup, in high-capacity Step-Van delivery models, in *every* Chevrolet, right up through a whole line of heavy-load haulers! As sure as Task-Force trucks are the year's biggest sellers, the right truck for any job is a Chevy. . . . Chevrolet Division of General Motors, Detroit 2, Michigan.

FORCE TRUCKS

CHEVROLET

BUSINESS WEEK

AUGUST 2, 1958

NUMBER 1509

● More and more, it looks to the Eisenhower Administration as if the worst of recession is passed.

● Right or wrong, that view shifts official worries toward fighting inflation.

● In this battle, Treasury Secy. Anderson (right) is the Administration's key man.

● He may be urging more controls over such things as consumer credit.

Renewing the War on Inflation

Official Washington is getting impressed by the signs of business recovery. Government economists are now telling the White House that gross national product may be back to its peak pre-recession level as early as the last quarter of this year. Outside Washington, few economists are that optimistic, but in the Administration the prospect is taken so seriously that top policy thinking is now directed at ways to head off inflationary price increases as business picks up, rather than at anti-recession moves.

With this shift in the making, Secy. of the Treasury Anderson is emerging as the key man in formation of Administration economic policy.

• **Dangerous Symptoms**—To Anderson and others in Washington, the inflation signals look clear: the stock market's rise to new 1958 highs, for example; recent price increases in tires and copper; the expected rises in steel and aluminum; the way the consumer price index kept rising during the recession when every other major indicator was tilting down.

These signs have an ominous ring to the politically sensitive men who call the policy turns. They are convinced the business rise will last—and that the recession will be practically dead as a political issue by election day in November. But they are worried over surveys showing that the public is highly critical of recent price trends—"fed to the teeth with rising prices," in the words of political survey-taker Samuel Lubell, who reports his findings personally to key officials in the White House.

Even more disturbing, officials are convinced that the paradox of rising consumer prices in the midst of recession proves a new and powerful inflationary impetus is at work in the economy—one that traditional policies will be unable to control.

They are convinced that intervention by the government to try to stabilize prices is a political necessity. And they suspect they may have to take new and untried measures if the pace of inflation increases as it now seems likely to do.

I. Anderson to the Fore

The central figure in this search for a new anti-inflation policy is Robert B. Anderson, Secretary of the Treasury.

Anderson is rapidly becoming the Administration's top economic strategist, the new strong man of the Cabinet, the man Eisenhower will lean on in the coming fight to stabilize the purchasing power of the dollar.

Even George M. Humphrey, Anderson's predecessor in the Treasury and the wheelhorse of the Administration for five years, did not carry such a load of personal responsibility as Anderson. Humphrey's advice—consistently on the conservative side—was balanced by that coming from Gabriel Hauge, the President's assistant for economic affairs, and from Arthur Burns, Eisenhower's first chairman of the Council of Economic Advisers. Anderson and Hauge have found themselves pretty much in agreement, but Hauge is scheduled to leave the White House in the fall (BW Jul.19'58,p32). Raymond J. Saulnier, now council chairman, has never achieved Burns' influence with the President.

• **Cautious Approach**—Ever since Anderson entered the Cabinet late last summer, he has lent a sympathetic ear to arguments for keeping the government on an anti-inflationary course, even in recession. For example, he went ahead this spring with his efforts to push out the maturity of the government debt, even though this is a deflationary move.

One of his first decisions was not to

ask Congress for an increase in the debt ceiling last fall. As a result, the government was forced to cut back sharply on already-authorized spending in order to stay under the ceiling. In January, Anderson asked for, and got, a "temporary" rise of $5-billion in the ceiling. And this week, faced with the certainty of a big deficit in fiscal 1959, he recommended another hike—but as little as possible. He wants a $10-billion permanent increase in the ceiling to $285-billion and an additional $3-billion temporary rise that would put the ceiling at $288-billion until next June 30 (page 92).

Anderson's role as the Administration's key economic adviser has been strengthened by two triumphs in his first year in office—each the kind that enhances reputations in Washington:

• He has newly won prestige as a successful economic forecaster. He said from the beginning that the recession would not last long, and that recovery would begin without a general tax cut or crash spending program. The performance of industrial production since May makes him look good, and the added business impetus from the Middle East crisis seems likely to silence even his most vehement critics.

• He has the power of a man who can deal successfully with the Democratic leaders of Congress. Anderson and two fellow Texans—Sen. Lyndon B. Johnson, Senate majority leader, and Sam Rayburn, Speaker of the House—engineered the truce this session that kept tax reduction from flaring into a major political issue. Congressional leaders like and trust Anderson with a warmth they never extended to Humphrey.

Among lawmakers, Anderson will be the Administration's most effective spokesman against inflation; this will be even more important if in November the Democrats increase their majorities in Congress.

II. Anderson's Arsenal

Anderson has no tidy package of anti-inflation policies ready to lay before Eisenhower and Congress. But he's thinking along lines that, in one important aspect, break sharply with the Eisenhower Administration's past. He's considering the possible use of consumer credit controls.

After consumer credit shot to unprecedented heights during the boom auto year of 1955, Arthur Burns, as CEA chairman, wanted Eisenhower to recommend controls over installment credit. But Humphrey objected, and Burns' proposal was watered down to a recommendation that the matter be studied. The Federal Reserve was given the assignment, a voluminous report was produced a year later (it said, in effect, that the Fed didn't want the job), and the Administration dropped the idea.

• **Contemplating Controls**—Anderson is reviving it as something worth examining, at least. He starts with a typical Republican dislike for controls of any kind, and in his mind the burden of proof undoubtedly rests with those favoring the proposal. So if he makes any recommendation to Eisenhower on the subject, it won't be right away.

The decision may rest, finally, on how much steam the recovery drive generates.

III. Out of the Depths

Government economists are becoming convinced that the recovery is going to be swifter than anything contemplated by the Administration, even up to a few weeks ago.

Here's the picture as they see it: The second quarter marked the turning point in terms of gross national product; the estimated rise from $425.8-billion in the first quarter to $428-billion in the second will quite likely turn out to be on the low side when the final figures are in.

On charts prepared for use in the White House, GNP is shown rising to around $432-billion in the third quarter and to $445-billion in the fourth quarter. This would equal the high for the boom that ended last year. Originally, Administration economists didn't expect last year's peak to be reached until sometime well into 1959.

• **Opinions on Prices**—There is disagreement inside the government over how prices will react to this swiftly improving business picture.

One group argues that prices will go on rising, but no faster than they have since their current upswing began in mid-1956. The pace of this rise has been 3.6% per year. The rise will get no faster—this group believes—because productivity always increases when business climbs out of a slump.

Another group points out that business has taken a beating on profits since the third quarter of 1957, and will have to recoup losses just as rapidly as possible. They think the tendency will be to use the expected rise in productivity to restore profit margins, and to drive through a series of price rises to offset increasing costs fully.

Such a reaction by business might lead to price increases averaging 5% at the consumer level in the next year.

One analyst puts it this way: "When you get prices to the consumer going up during a severe recession at a rate of 2.6% a year, as they have since last September, it would be surprising if the rate didn't increase sharply as soon as business starts picking up. Don't forget the same forces are still at work forcing up costs—wages first of all."

• **Businessmen's View**—From BUSINESS WEEK's own reporting this week, however, it's apparent that businessmen don't regard price rises as inevitable. Short of a shooting war, most told reporters that they don't expect Mideast tension to affect prices much. The determining factors, in their view, are local—such as the price of steel and the costs of labor.

Thus, some price hikes are foreseen by Westinghouse, for example, but not because of the Middle East. "Price increases reflecting higher costs of materials and labor seem inevitable," says a company spokesman. On the other hand, the chemical industry, which feels little impact from rises in the price of steel and such, is thinking only of how long it can hold present levels without yielding to downward competitive pressures.

IV. How to Hold Prices

Politicians aren't too interested in this debate among economists and businessmen. They see the rising cost of living as a present source of voter unrest—and one that will shoot to the top of domestic issues as the recession fades.

The Administration's first reliance will be on traditional policies.

Officials expect the Federal Reserve to tighten up on credit early in any sustained rise, for example, ending the present period of easier money. They see consumer credit controls—if they are eventually recommended—as supplementing general credit restriction, not replacing it.

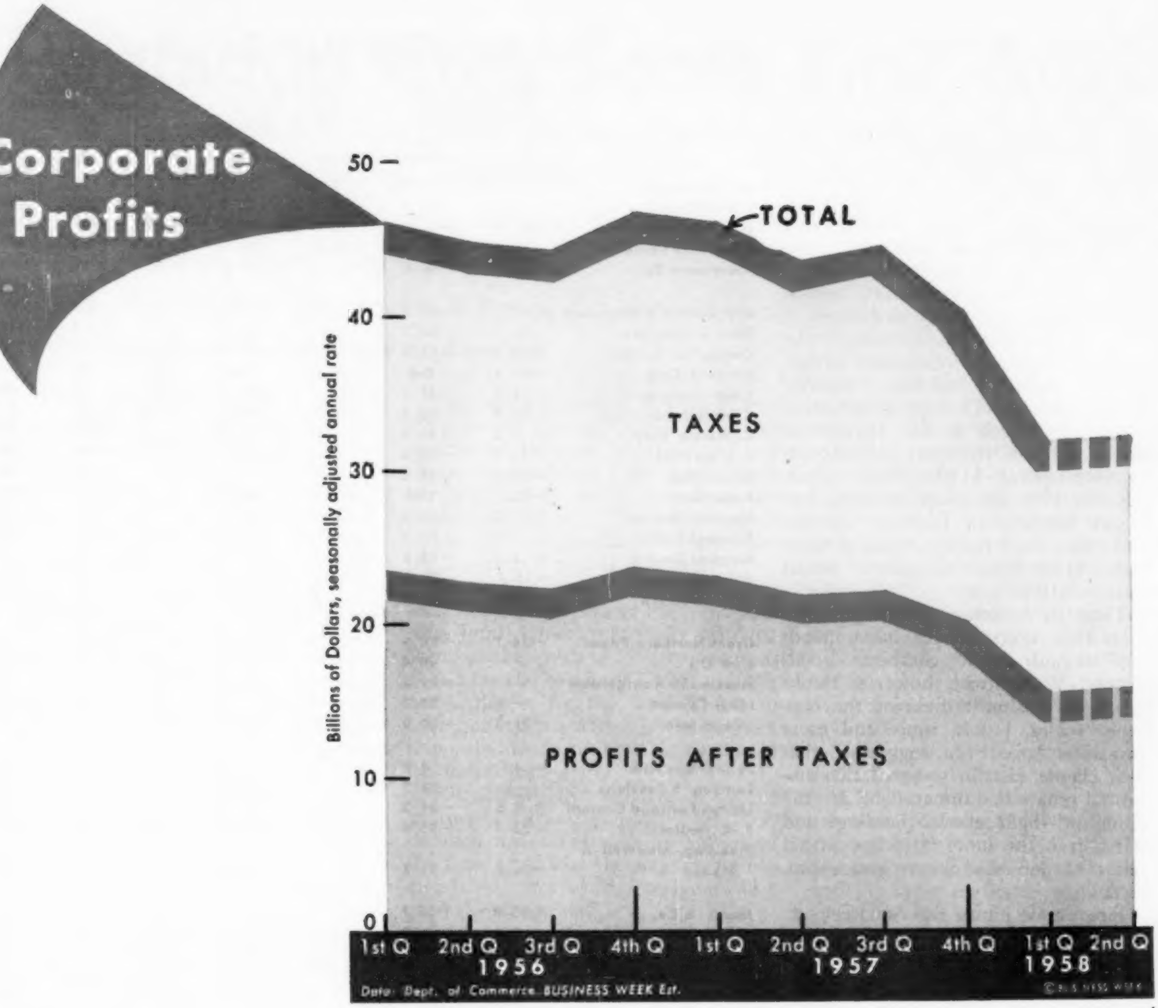
There will also be a crackdown on government spending. First to feel effects will be the budget for fiscal 1960, which the Administration is now working on. New spending programs will be knocked out if inflation fears are borne out over the next few months.

The next step will be to **reduce the outlay in the anti-recession spending programs** voted this year by Congress.

• **Congressional Schemes**—More extreme measures are not being given active consideration by the Administration.

In Congress, however, several original proposals are being discussed.

Rep. Henry S. Reuss (D-Wis.) has a bill before the House Committee on Government Operations to spell out specified anti-inflation duties for the President. He thinks the President should make annual recommendations about credit to be followed by the Federal Reserve Board. And he wants Congress to direct the President to step into situations involving price and wage increases where there is a "serious inflationary potential" and try to stop them by persuasion.



Earnings Look Up—Just Barely

From the flood of second-quarter company reports already in, it's plain that business confounded the pessimists with its earnings performance from April to June this year.

In comparison with 1958's first quarter, more companies did better than did worse (table, page 20). And, though it's too early for more than a rough guess, it looks as if after-tax profits for the second quarter ran at an annual rate of \$15.6-billion to \$15.7-billion (chart, above)—a notch above the \$15.5-billion estimated for the first quarter by the Council of Economic Advisers.

On the basis of present reports, however, this doesn't necessarily mean business will start rocketing upward right away. Company figures hint that third-quarter progress will be slow and not particularly sensational.

• **First Since 1955**—In the more cosmic view, the profit improvement is rather puny. Still, as the chart confirms, it's apparently the first time since 1955 that the second-quarter take has been better than the first quarter's. Furthermore, the increase was scored on sales volumes that, for the most part, changed relatively little between quarters. This is a tribute to the ministrations of management on costs and operating efficiency.

Once these promising signs have been acknowledged, some grounds for caution are unavoidable. For example:

• Second-quarter earnings ran some 30% under returns for the same period last year—slightly better than the first quarter's 33% drop from 1957.

• Even though a majority of companies earned more the second quarter than the first, as many as 45% earned less, in a sample of around 200 operating reports.

• A number of companies could qualify only technically as having done better. Chrysler Corp. made the honor roll only because it trimmed its deficit to \$10-million in the second quarter (vs. last year's \$43-million net) from \$15-million in the first three months. Crucible Steel upped its net a scant 1¢ above the 5¢ a share it earned in the first quarter; its earnings were 90% below April-June, 1957.

• Earnings and dividend payments were still disturbingly close. Out of 150 corporations, as many as 22% paid out more to stockholders than they earned, despite dividend reductions in some cases. Close to one-third of the 150 had unusually high dividend payout rates, ranging from 70% to 99% of earnings.

• **Scapegoats**—For most of their recent troubles, managements point the finger at recession. Sales are down because of consumer listlessness, the sharp slackening in capital spending, and persisting inventory liquidation. At the same time, operating costs are up, and

competition has been making it increasingly difficult to offset higher costs with higher prices.

The gloom isn't universal. Ethical and proprietary drug manufacturers have been flourishing; so have cigarette makers, manufacturers and distributors of food products, and electric power producers, among others. But the sick list has included such bulwarks as railroads, autos and trucks, steel, oil, chemicals, machinery, nonferrous metals, metal fabricating, textiles, and paper.

Among the Big Three, though, the rule that the biggest companies do better has definitely applied. General Motors—the world's biggest industrial enterprise as well as the biggest car maker—was able to report second-quarter earnings of $149-million. True, this was 32% less than last year, but it was better than Ford or Chrysler could do. Ford ran a net loss of more than $17-million; Chrysler's deficit came to $10-million.

• **Time to Switch**—It's still anyone's guess how much longer heavy goods will languish while consumer goods prosper. Wall Street, however, thinks the party is almost over for the consumer trades. Lately, more and more counselors have been suggesting that their clients cash in some of the substantial profits that are available for the taking in "light goods" holdings and switch into the more attractive priced shares of depressed heavy goods producers.

Time may prove this advice wise. But so far few men in management of the heavy goods industries are as sanguine as these Wall Streeters. Most of them think the worst of the recession is over and that, from here on, the earnings trend should be upward. But they have yet to risk any very optimistic predictions to stockholders. Apparently, few see for the nearby months anything like the spectacular advance that will be needed if earnings are to return to levels of 1957—let alone 1956 or 1955. Here's where they seem to disagree with the stock market, whose recent ebullience would suggest a speedier recovery than the companies themselves envision.

Tuesday, for instance, Chmn. Roger M. Blough of U.S. Steel Corp. reported Big Steel was now operating "in the area of 53% to 54%" of capacity after "a very slow July." There had been "some pickup in current orders," he added, and there was reason to hope that by the last quarter his company's operating rate "would get out of the 50s into the 60s." But Blough also saw "no present indication of a vigorous pickup." After all, he concluded, "I think it takes a while for our economy to bring itself around to a different point of view and act on it—you don't turn on a dime."

Second Quarter, First Half Results

	Second Quarter Percent Change (1958 vs. 1957)		First Half Percent Change (1958 vs. 1957)		1958 First Half Dividend Coverage		
	Sales	Net Earnings	Sales	Net Earnings	Per Share Earnings	Per Share Dividend	Pay-Out Rate
Air Reduction	− 9.5%	−18.0%	− 8.0%	−20.2%	$1.71	$1.25	73%
Allied Chemical	− 9.4	−33.5	− 9.8	−32.9	1.49	1.50	100
Allis-Chalmers	+ 1.4	+ 1.8	− 5.7	−23.7	1.02	0.75	75
Allegheny Ludlum	−32.6	−78.1	−35.4	−82.3	0.36	1.00	277
Aluminum Co.	−13.8	−58.8	−13.4	−48.8	0.88	0.60	68
Arrow-Hart & Hegeman	——	−37.0	——	−29.2	2.01	1.70	60
Bliss & Laughlin	——	−53.7	——	−61.5	0.57	*0.65	114
Caterpillar Tractor	− 8.3	−13.5	−20.1	−47.2	1.55	1.20	77
Chrysler Corp.	−40.9	Def.	−47.8	Def.	Def.	*1.00	——
Clark Equipment	−14.6	−47.3	−12.7	−38.6	1.11	1.00	90
Consolidation Coal	−35.9	−42.3	−30.9	−45.6	0.78	0.60	77
Container Corp.	− 1.3	−10.2	− 1.8	−11.8	0.65	0.50	77
E. I. du Pont	−11.3	**−28.0	−14.4	**−28.4	3.08	3.00	97
Eaton Mfg.	−35.6	−58.3	−30.8	−53.8	1.66	1.50	90
Ford Motor	−38.1	Def.	−34.0	−96.8	0.10	*1.20	1,200
Gardner-Denver	−25.2	−58.2	−21.1	−44.7	1.70	1.00	83
General Cable	——	−56.8	——	−51.7	1.05	2.00	190
General Electric	− 5.4	−15.1	− 6.7	−19.1	1.18	1.00	85
General Motors	−15.4	−32.3	−13.4	−30.6	1.17	1.00	85
B. F. Goodrich	− 5.6	−16.2	− 8.8	−27.5	1.60	1.10	69
Great Northern Paper	−24.1	−98.4	−24.4	−96.9	0.01	*0.30	——
Gulf Oil	——	−48.4	——	−42.6	3.72	1.25	34
Hussmann Refrigerator	——	−29.6	——	−30.2	0.66	0.50	76
Ideal Cement	——	+20.3	——	+ 3.4	1.87	1.00	54
Inland Steel	−21.3	−20.0	−23.7	−32.5	3.51	2.00	57
Johns-Manville	− 4.0	+ 8.0	− 6.6	− 7.0	1.12	1.10	98
Lamson & Sessions	——	−72.5	——	−76.0	0.51	*0.70	137
Lehigh Portland Cement	+ 0.5	−24.2	− 3.4	−31.2	0.86	0.50	58
P. R. Mallory	−23.0	−43.9	−22.4	−50.9	0.58	0.70	121
Manning, Maxwell & Moore	−20.3	−51.3	−15.7	−46.8	1.11	0.70	63
Merck & Co.	+10.8	+25.7	+11.2	+19.6	1.35	0.60	44
Minneapolis-Honeywell	− 5.5	− 7.3	− 4.8	−13.1	1.29	0.80	62
Monsanto Chemical	− 1.6	−30.5	− 7.4	−40.3	0.75	0.50	66
Nat. Cash Register	+ 2.3	−17.0	+ 4.1	−11.5	1.03	0.60	58
Owens-Illinois Glass	− 6.2	−27.3	− 1.6	−20.7	1.67	1.25	75
Otis Elevator	——	+11.0	——	+10.6	1.72	1.00	58
Pitts. Plate Glass	−17.4	−52.0	−19.8	−56.5	1.29	1.10	85
Radio Corp.	− 1.9	−39.5	− 4.0	−33.3	0.86	0.50	58
Rayonier, Inc.	−11.7	−63.7	−13.3	−69.8	0.21	*0.30	143
Republic Steel	−33.0	−38.4	−39.8	−54.8	1.53	1.50	98
Revere Copper & Brass	−17.0	−59.6	−20.2	−54.1	0.79	*0.75	95
Reynolds Metals	− 4.4	+ 7.3	+ 2.6	+ 3.6	1.67	0.25	15
R. J. Reynolds Tob.	+ 5.4	+24.8	+ 6.4	+27.0	3.45	1.80	52
Rockwell Mfg.	−21.4	−35.1	−20.5	−48.7	1.06	1.10	104
St. Joseph Lead	−40.0	Def.	−41.2	−61.6	0.81	*0.50	62
St. Regis Paper	− 1.8	−16.7	− 4.7	−25.3	0.92	*0.70	76
Schering Corp.	− 5.6	−27.0	− 3.0	−13.3	1.44	0.60	42
Scott Paper	+ 2.0	+ 1.3	+ 1.6	+ 0.7	1.35	1.00	74
Sealright-Oswego Falls	− 2.0	+ 4.3	− 2.8	+ 4.8	1.64	0.70	43
Stanley Works	−11.4	−49.0	−12.8	−56.7	0.82	*1.00	122
Shell Oil	−10.1	−43.4	−13.6	−39.4	1.51	1.00	66
Sylvania Elec. Prod.	+ 0.6	−17.7	− 9.2	−46.1	0.67	1.00	150
Texas Co.	——	−12.9	——	−16.1	2.37	1.00	42
Timken Roller Bearing	——	−55.2	——	−52.2	1.16	1.00	86
Union Carbide	−13.1	−20.7	−14.7	−28.3	1.66	1.80	108
U. S. Gypsum	+ 2.9	− 8.3	+ 1.7	− 7.8	2.13	1.00	47
U. S. Steel	−26.3	−36.7	−28.8	−41.4	2.29	1.50	65
Wagner Electric	− 0.5	−19.9	− 9.9	−30.4	2.27	1.00	44
White Motor	+22.8	−19.8	+14.0	−24.1	2.43	1.50	62
Youngstown S. & T.	−30.6	−62.6	−35.6	−64.4	2.77	2.50	110

NB. All figures exclude nonrecurrent items.

* Now paying lower dividend than in 1957. ** Earnings on common stock.

Pentagon Gets Some First Aid

● **Congress has passed two major acts that go part way toward shoring up Defense Dept. weaknesses.**

● **The Defense Reorganization Act gives the department the most thorough streamlining in its history.**

● **The National Aeronautics & Space Act establishes a civilian agency to tackle space exploration.**

When the Russians beat us into outer space with their first Sputnik, the shock guaranteed an overhaul of the Pentagon.

The Pentagon's organization essentially was still the organization that came out of World War II. But there was profound worry that something different is needed to catch up with or keep ahead of the Russians in the era of space vehicles, missiles with hydrogen warheads, tactical atomic weapons, nuclear-powered submarines, chemical warfare—plus such limited actions as in Lebanon and other brush-fire situations.

The post-mortem examinations pointed up two major weaknesses:

- A military organization made obsolete by advances in technology.
- The lack of an imaginative program to tackle space exploration.

Two major acts of Congress have now gone part way:

The Defense Reorganization Act, although falling short of the Administration's initial plans to overhaul the Pentagon, provides the Defense Dept. with the most thorough streamlining since its creation in 1947.

The National Aeronautics & Space Act creates a new civilian agency to pull the strings on space exploration.

I. Defense Reorganization

The President spotlighted the problem of defense reorganization in his January State of the Union Message, and three months later, he spelled out what he wanted to do. His objectives, he said, were to reduce inter-service rivalries, to "clarify" the Defense Secretary's authorities and provide him with greater "flexibility in the management of defense funds," to unify both strategic planning and combat force commands, to shorten command channels, and to provide the Joint Chiefs of Staff with stronger operational control over the armed forces.

However, the Administration backed off on what was likely to be the most controversial feature of the President's plan: increased control over military appropriations for the Secretary of Defense.

The Administration proposed that direction of strategic planning be put under the Defense Secretary and his "operational advisers," the Joint Chiefs of Staff, and be taken away from the individual services. Similarly, unified combat commands were to be put under the Secretary's central direction.

In addition, the proposal called for an increase in the size of the Joint Staff (the Joint Chiefs of Staff's working agency), the creation of an operations division under the Joint Chiefs of Staff, and authority for the Joint Chiefs to "delegate major portions of their service responsibilities" to the vice-chiefs of the individual services.

• **Restrictions**—In essence, Congress approved these proposals. But it clamped restrictions on the powers of the Joint Staff and the new operations division—to prevent the emergence of a general military staff.

Inherent in the Congressional position was the lawmakers' traditional fear of surrendering their say in defense policymaking to the executive branch. The new bill specifies that the three services will continue to be "separately organized," and refers to a "separately organized" Marine Corps and Naval Aviation Guard Bureau.

Hence there's no doubt that Congress continues as final arbiter over major changes in the Pentagon. Indeed, its veto power over proposed Administration tinkering with service roles and missions is strengthened.

One of the bill's most significant features is the creation of a new director of Defense Research-Engineering. It's assumed that he will become the "strong man" Congressional critics have long demanded to run costly weapon research and development projects.

II. New Space Agency

The National Aeronautics & Space Administration is set up to "plan, direct, and conduct" research and development in the aeronautical and space fields. The new agency will stress nonmilitary aspects of space—for instance, basic astronautical research.

The Defense Dept. will continue to work on space projects directly tied to defense needs—such as reconnaissance satellites, manned military spacecraft, and the like.

This division of labor, however, leaves room for confusion over who is in charge of space operations of direct concern to both the military and civilian scientists. To determine whether the Pentagon or NASA runs such projects, the law creates a liaison committee, consisting of officials from both agencies, to make the decision.

If the committee cannot come to agreement, the National Aeronautics & Space Council will review the issue.

The council will act as the President's chief advisers on space matters and be responsible for top policy planning. But internal control over the agency itself will be centralized in the hand of the NASA administrator.

NASA will open up shop in 90 days. At the same time, the National Advisory Committee on Aeronautics will go out of business.

Right now, Washington is betting that 60-year-old Dr. Hugh L. Dryden, NASA director of the past 11 years, will take over as head orf NASA.

Roughly half of NCA's \$105-million budget and 7,900-man staff is already working on space projects. The agency did the initial planning for the X-15 rocket-powered research plane scheduled to fly next year, developed the blunt nose cone concept for ballistic missile warheads, and has worked on at least a dozen major missile projects.

• **New Jobs**—In growing into a full-fledged space agency (while keeping its hand in aeronautics), the agency plans to triple its budget and to start a wide-scale program of farming out research and development work to industry and private research institutions. Right now, it's limited to \$500,000 worth of outside contracts a year.

When NASA starts operating, at least \$72-million of the \$520-million in the current budget of the Pentagon's Advanced Research Projects Agency will be shifted to the new agency.

Two big ARPA-sponsored projects—development of a giant rocket engine with 1-million lb. of thrust (handled by the Air Force) and five rocket shots to the moon (assigned to both the Army and Air Force) may also be placed under NASA's supervision.

The NASA bill contains a more liberal policy on patents than exists in the Atomic Energy Act. The House voted to allow private space contractors to obtain patents in certain areas, and provides for space patent appeals on a judicial basis.

MARCH, 1953 Khrushchev is little known even in Russia at Stalin's death. Malenkov and Molotov head funeral procession.

JULY, 1955 Khrushchev grabs power from Malenkov, talks "peaceful coexistence" at Geneva Summit Conference, with Bulganin at his side.

DECEMBER, 1955 On a whirlwind tour of India, Khrushchev (right) tells Indian masses: "We will share the last piece of bread with you."

1956 Puffed with success, Khrushchev drinks and smiles at embassy receptions, shows concern over Middle East.

OCTOBER, 1956 Khrushchev goes hunting with Yugoslavia's Marshal Tito, whose "independent" Communist line had infuriated Stalin. But after Hungarian uprising a week later, Khrushchev gets tough with Tito.

The Steamroller in the Kremlin

More than at any time since World War II, the U. S. this week is smarting from one blow after another to its worldwide prestige.

The man most responsible for this is 64-year-old Nikita S. Khrushchev—a kind of free-wheeling diplomat and ruthless dictator that the West has never encountered before.

Right now, after months of stalling by the West over a summit meeting, Khrushchev in a sudden barrage of brazen letters and notes has forced us to go along with a top-level conference—or, at least, to take the whole idea seriously.

His summit tactics are only one phase of Khrushchev's new-style diplomacy. He has picked up the age-old idea of subversion as a weapon to give the Communists a voice in the Middle East. He has exploited Soviet military strength by trying to cow the West into submission by threats of rockets and missiles. And to sweeten his purpose of knocking over the West, he has smiled at Indians and Britishers on tours abroad and clinked glasses with Western newspapermen at diplomatic receptions in Moscow.

• **Different Stripe**—The fact is that the West now is dealing with a man far different from his predecessor, Stalin. Stalin was a diplomat of the old school who while ruthless at home stuck to courtesies in exchanges with Western leaders or diplomats. Stalin also usually made it clear where he and the Soviet Union stood on any given issue. He wanted Eastern Europe, partly as a barrier against the West, but he made little effort to reach out farther.

Khrushchev is a man of a different stripe. He has shown complete contempt for the West, while at the same time calling for "coexistence." He has not been content to hold the Soviet Union within certain known boundaries, as Stalin did in retreating from Iran, Greece, and South Korea under the West's pressure. He has acted as though he were master not only of the Soviet Union, but also of the West.

• **No Letdown**—Yet, at Stalin's death, the West expected a letdown in East-West tension. And for a time, when Malenkov ran the show, the Soviet Union was too busy at home, playing out a power struggle in the Kremlin and playing up to discontented Russian consumers, to push an expansionist policy outside its borders.

Soon, the West realized the man it would have to deal with was Khrushchev, who had moved into the key spot as Communist Party Secretary. It knew little about the man. But a clear picture gradually began to emerge, pieced together by Soviet experts here and from the methods the new man used in dealing with the West.

• **Ladder to Kremlin**—Khrushchev spent the first 25 years of his life as a farm laborer, miner, and plumber's helper. In his early years, he built up a fanatic hatred for Western capitalists. The other Communists at the top were sold on the Marxist textbook of exploiters versus the exploited. Khrushchev needed no textbook. In working in mines in the Ukraine, he felt the direct impact of what he considered exploitation.

He grabbed on to the Communist Party as a means for advancement. And he went far—by the mid-1930s he was close to the inner Kremlin circle. But on Stalin's death, he was really a no-

SOVIET GOAL for Khrushchev is not just control over the Middle East, but domination of the West—with the U. S. his ultimate target. "We will bury you."

OCTOBER, 1957 **Following launching of Sputnik I, Khrushchev and Communist China's Mao Tse-tung meet in Moscow to set anti-Western strategy.**

1958 **Khrushchev follows up earlier arms deal in personal conference with Pres. Nasser of Egypt, openly backs mounting Arab nationalism.**

body in terms of power to move into the top spot.

• **Dark Horse**—Besides that, powerful men were pushing for Stalin's position, before and just after his death. Malenkov was directly in the line of succession. Molotov, who had worked closely with Stalin, was a key competitor. Beria, ruling the powerful MVD, was in a position to move fast. And Kaganovich, the man who had picked Khrushchev out of the Communist rank and file some two decades earlier, also had his eye on becoming boss.

Within three years, Khrushchev had outmaneuvered all these rivals. He even got rid of Marshal Zhukov, the single most popular man in Russia.

His precise methods in knocking off opponents are not known. But it's clear that two personal qualities helped him immensely: supreme self-confidence and a gambler's instinct. Thus, where Stalin stripped rivals of power before getting rid of them, Khrushchev gambled on eliminating rivals while they still held full power.

As top boss, Khrushchev has been more open and "liberal" than Stalin—and part of the reason may lie in the fact that the Soviet Union has passed the point where it could turn the clock back to the terrorist Stalin days. Side by side with Khrushchev's rise, the Soviet Union has gained momentum as an industrial power, with more wealth and goods to go around. It also has reached a stage where it can boast of production-line H-bombs and batteries of missiles.

• **Absolute Dictator**—Against this background, Khrushchev has run his country in a different manner from Stalin. Stalin was a personal and absolute dictator. But Khrushchev, though essentially an absolute dictator, works by using the Communist Party as his own personal instrument of power. He has actually narrowed "collective" leadership down to one man, himself, but, in the post-Stalin Russia, he has gone out of his way to take advice from other members of the Communist Central Committee.

Khrushchev has stabbed at the West in all directions. Though the West has jabbed back—for instance, in combatting Communist infiltration into Lebanon by landing U.S. Marines—it also has given him more than enough targets to shoot at. The refusal of the U.S. to help Pres. Nasser finance the Aswan Dam in Egypt is one example of leaving the door wide open for a Khrushchev move.

• **Techniques**—On balance, Khrushchev's Russia has been bursting out into far broader areas than Stalin's. Aligned with Mao Tse-tung, Communist China's top boss, Khrushchev firmly believes that the balance of power has shifted irrevocably from the free world to the Communists.

He is willing to use almost any technique he can dream up to help along that shift—and it may be the techniques, as much as the actual moves, that have thrown Washington foreign-policy strategists off balance.

At one moment, Khrushchev talks for CBS television in an hour-long interview. At the next moment, he tightens censorship on Moscow news. Then, he calls for cultural exchanges, but at the same time talks atomic blackmail to Western governments.

• **Steamroller**—Thus, Secy. of State Dulles has described Khrushchev as "more dangerous" than Stalin. The people below him in the State Dept., and other Washington officials too, stand in almost admiring awe of the man, as though Khrushchev were a steamroller you can't stop.

Simply as a person, he shows tremendous vitality and omniverous curiosity. He smiles. He gets mad. He goes to Moscow cocktail parties, travels around Russia, and makes trips outside Russia—something Stalin rarely did. Sometimes, Khrushchev looks exuberant, as though he had the world over a barrel. The next moment, he looks calculating, as though there were still a lot of the world left to conquer.

Khrushchev, in the opinion of many Washington experts, deeply believes that history is on the side of the Soviets. With this belief, he can afford to be inconsistent in speech and action and still feel he is riding a winning horse.

• **Evaluation**—Nobody in Washington, of course, has forgotten the disillusionment after Geneva, nor the riots in East Berlin, nor Soviet brutality in Budapest. They remember that Khrushchev has said: "We will bury you."

But there's a widespread lingering feeling that Khrushchev is a safer man for the West to deal with than the monolithic Stalin. Some of the juniors in the State Dept. see him as a practical, adroit, flexible politician—a man who can make concessions, if concessions are indicated, as well as exploit opportunities.

But if these qualities make Khrushchev "safe" in one sense, they make him deadly dangerous in another.

You can see that in a report from BUSINESS WEEK's Moscow bureau:

"Khrushchev wants to talk to Ike in a face-to-face meeting. If it occurs, it should be quite an exchange. The Russian leader is a master at extemporaneous presentation of his views.

"The whole direction of Soviet strategy is to rush a meeting on the basis that the world is on the brink of war. It's apparent the Soviets aren't going to quibble about summit details, since they feel they have the West on a hook."

Auto Dealers . . .

. . . for Ford, Chevrolet, and Oldsmobile are charged with conspiring to set prices for cars, parts, and services.

The auto industry—one of Washington's favorite whipping boys this year—got another whack this week, this time from Dept. of Justice antitrusters.

In three separate indictments handed down by a grand jury, Washington area car dealers—for Ford, Chevrolet, and Oldsmobile—are charged with getting together on a variety of things all designed to make the consumer pay more for his new car than he would have to if competition were unrestricted. Ford Motor Co. is the only manufacturer named for getting together with its Washington dealers.

These investigations seem to be part of a concerted drive to alert car dealers all across the country—and car makers, too—on practices the antitrusters figure are on the wrong side of the law. There are grand juries still considering evidence along the same lines in other cities, among them New York, San Francisco, Cleveland, and Detroit.

The Washington charges are against the dealer groups separately. No allegations are made about dealers for one make getting together with dealers of another make.

Not all the same charges are leveled at each group of dealers, but the key charges in the bundle are that they combined to set prices to be charged for new cars, for parts and accessories, and for labor on repair and service jobs.

• **Whys?**—There are some unanswered questions raised by the three indictments. For instance, how did dealers for Chrysler Corp. cars manage to escape being caught in the net? And why is Ford the only manufacturer named?

• **Crackdown**—There's little doubt that the charges against the Washington dealers stem from the widespread interest of the public and of public officials in just about every phase of the auto industry's operations ever since the slump in auto sales began. Administration officials have broadly suggested that the industry's decisions have helped pull the economy downward. Congressional probers have whacked at auto executives for the way they've designed their 1958 models, the way they've priced them, and accuse them of failing to gear their operations either to market needs or the public good.

One concrete result is a new law requiring, as of Oct. 1, that all new cars carry a windshield label specifying, among other things, the retail price sug-

gested by the manufacturer. The idea behind the law, sponsored by Sen. Mike Monroney (D-Okla.) is to give a buyer some definite price as a base from which to start his bargaining with a dealer.

Now the Antitrust Dept. is taking a new cut at the price situation, charging that for some years past dealers—in the Washington area, at least—have got together to fix their own retail prices at levels "substantially higher than the list prices suggested by the manufacturers."

• **Counter Charges**—The auto dealers charged right back that the grand jury apparently ignored the biggest single factor in arriving at the price of most new cars: the allowance on the car the customer is trading in, and the discounts allowed from list prices all up and down the line—on the car itself, on accessories, and the like.

Some dealers said the only price anyone ever agreed to was an "asking price," but that this never wound up as a selling price because of the fierce competition on trade-ins, and out-and-out price cutting.

Ford Motor Co.'s vice-president and general counsel, William T. Gossett, said the charge against Ford "is untrue," and suggested that it stems from a 1954 campaign to identify "bona fide wholesaler parts customers," which had nothing to do with prices.

• **Charges**—A variety of practices were charged as contributing to the main purposes of the conspiracies, among them:

• Ford dealers are accused of agreeing not to sell cars at a price resulting in less than a $225 gross profit—using a realistic wholesale price of the used car taken in trade. Furthermore, the indictment says, they agreed to hold meetings at which dealers would be required to justify any sales made at less than this gross profit.

• Ford dealers are charged with using their Ford Dealers Advertising Funds, a cooperative advertising outfit, as the agency to agree on charges on cars, accessories, and the like, and to agree not to advertise prices either for new cars or for demonstrators' company and officials' cars.

• Oldsmobile dealers are accused of agreeing on a $450 minimum profit per car, and of allowing inspection of any dealers books if any question arose about non-compliance with this.

• Chevrolet dealers and their Washington association are charged with agreeing on hourly labor rates to be charged customers for service and repair work for car owners, and work done during a warranty period for which the manufacturer pays the bills. One result, says the indictment, is that Chevrolet Div. of General Motors "has been deprived of the benefits of having hourly labor rates which it pays . . . determined by free and unrestricted competition.

Steel Prices Hiked at Last

One month later than expected, steel starts to cover labor costs with Armco in Big Steel's usual place as first to move. Aluminum is likely to do the same soon.

Prospects of higher prices for both steel and aluminum again confronted American industry this week.

Steel prices suddenly began a forward march, almost exactly one month after a general across-the-board increase had been expected. For, back on July 1, all steel companies were saddled with higher operating costs by an automatic wage increase plus a cost-of-living adjustment totaling roughly 20¢ an hour.

The pattern of the past always called for a compensating price increase just as soon as a wage increase took effect. And the pattern always called for U. S. Steel Corp. to lead the parade. This year, though, things were different. The wage increase went into effect all right. But the price increase didn't, simply because Big Steel decided to wait a while, and no one else in the industry wanted to accept the role of price leader. One of the smaller producers, Alan Wood Steel Co., did dare to post a tentative boost effective July 7, but, when no one joined it in the move, the higher price was canceled.

• **Armco's Initiative**—This week, a much bigger company started a ball rolling. Armco Steel Corp. announced price boosts averaging $4.50 a ton (enough to cover the higher direct labor costs) limited to its carbon steel hot- and cold-rolled sheet and strip products. Unofficially, it was said that the company was studying prices on its other products, including structural shapes, plates, bars, and wire, but without any indication as to the probability of a widening out of the price advance for sheet and strip.

Armco's move was followed within 24 hours by Republic Steel, Jones & Laughlin, and National Steel Corp. With that many big wheels rolling in the parade, there was little question that the price increase would become general throughout the entire steel industry.

• **Aluminum Ponders**—Meanwhile, the steel industry's biggest competitor was facing the same problem. Aluminum, too, has a wage increase, this one effective Aug. 1 to raise its costs of production. At midweek, the companies said they were considering price in the light of the market and of the impending wage rise, but without yet coming to any conclusion.

Aluminum's experience the last time out had not been very pleasant.

Last August, aluminum producers put up the price of their product by 1¢ a lb. to offset rising wage costs that went into effect on that date. However, in March, that price increase and another 1¢ were lost when Aluminium, Ltd., said it would reduce its ingot prices. To meet the price challenge of the giant Canadian competitor, domestic producers knocked prices down by 2¢ a lb.

Now, the domestic companies are expected to make a new try at resuming the upward trend of prices. At midweek, the general expectation of industry observers was that an increase of 1¢ a lb. (about enough to offset the new wage lift) would come from domestic companies.

• **How Wide a Hike?**—As far as steel prices are concerned, the big unanswered question is whether all steel products will be affected sooner or later. Much will depend on the reception the higher sheet and strip prices get in the market.

If there is no sign of weakening in that sector, the chances of a full-line increase are exceedingly good. And, if the higher prices for sheet and strip are sustained, the further likelihood is that the size of the increase for other products will be in the same area, about $4.50 a ton.

Early in the year, there was public and private talk that a considerably larger price increase could be expected. Some steelmen said it was fair to assume that a boost of as much as $11 a ton should be forthcoming. But, as the time drew near to the July 1 date when direct labor costs would go up, the forecasts got more and more conservative.

In June, most of the guesstimates put the anticipated price increase in the neighborhood of $5.50 a ton. Finally, by this week, the figure of $4 a ton was being put forward. For example, Iron Age reported this week that U. S. Steel Corp. was considering a price boost of that dimension.

However, Chmn. Roger Blough of Big Steel said after the Corporation's second-quarter report was issued Tuesday afternoon that he didn't have anything to announce on prices that day or the following day. Since it was only a few hours later that the Armco announcement was made, the industry's largest company apparently was not aware of the competitive move at that time.

Smart Money Pulls In Its Horns

● Survey shows a majority of big-time investors are sitting it out in cash or tax exempts.

● Many are nursing wounds from both the rise of the stock market and the fall of bonds.

● Still, a lot of sophisticated cash continues ready to snatch the fat opportunity here and abroad.

Ferreting out money-making opportunities these days isn't quite so difficult as finding a needle in a haystack, but it's a lot harder than it used to be. What's more, even some of the best-looking plans for big profits have soured into red ink.

This is the consensus of a big sampling of "smart money" investors across the country—men with money and with reputations for chalking up handsome gains. BUSINESS WEEK reporters this week found these smart money men surprisingly cautious about putting their funds to work. As one Boston man put it, "The smartest money I know of right now is sitting on the sidelines because nothing looks very good."

• Sitting It Out—Not all smart money men echo this view, but an increasing number are keeping large sums in banks or in tax-exempt municipal bonds. They report that investment offers are as numerous as ever—but, in general, they are much more wary about taking on commitments.

It's true that it takes money to make money, but not all the rich are smart money operators. Being an operator is a full-time career, and those who practice it fall into, or shift between, two categories:

• Those on the hunt for investments with almost no risk. They much prefer a sure 10% return to bigger but riskier harvests.

• Those who are out for large gains, and regard losses as an inevitable hazard.

Right now, most smart money men are in the playing-it-safe category. Many who made big killings in risky speculative deals have turned much more cautious. In some cases, they have amassed so much capital that tax considerations dictate a more conservative approach.

• Market Fears—The close-to-the-vest attitude has other causes. A number of smart money men are plainly skeptical about the stock market's strong showing; until recently, most of them doubted that the rise could be sustained. Now there has been a break in the ranks, and some are buying in. But the majority still insists that it is the unsophisticated small investors who are bidding prices now.

So far this year, though, it has been the smart money investors who have not done so well. Many have not been able to profit from the stock market rise and have taken a beating in bonds. This reversal of form has been responsible for a good deal of the cautiousness.

Actually, few smart money men were caught by the market slide that started in July a year ago. Not all got out of the market, however. Some simply switched to issues they thought would do well in a drop. Others, like a Philadelphia investor, held on to their portfolios in the belief that the decline would be short-lived, and have no reason to regret the decision.

• Most Withdrew—A majority did get out of the market before the drop. Some simply reversed their tactics, and began selling short the stocks they had held.

Other investors who had cashed in their stocks at a profit put their funds into bonds—particularly long-term governments, which can be bought on 5% margin—with unhappy results. They reasoned, correctly, that the recession would bring cheap money and low interest rates, which would mean a bull market in bonds. But the rise in bond prices, though spectacular, has been followed by an even steeper fall. A few investors got out well ahead, but many have painful losses.

"The trouble," says one hard-hit bond speculator in Chicago, "is that many people got too smart. Everybody latched on to bonds so that prices got bid up to dangerous levels. We planned on getting out early, but at the first sniff of a change everybody tried to sell at once, and the whole thing collapsed."

• Missing the Boat—Those who held cash, expecting to buy into the market at bargain prices, have, on their own reckoning, missed an opportunity to make money. Some of them still insist that they would probably follow the same course again. "I don't think I'm any less smart," says one sitting-it-out New England investor, "I was just less lucky."

Some smart money men, admitting bewilderment, think they no longer qualify as astute dealers. In Seattle, a banker reports that a good deal of what he considered sophisticated money went into new investment trusts simply because the investors had given up trying to figure out what to do.

Another explanation is advanced by some smart money men. They contend that there's a much higher level of sophistication among investors today, so that the smart money operators no longer have the field to themselves. When a lot of money is chasing a "good thing," the race often is reversed.

• In There Swinging—Of course, plenty of smart money men still feel confident about their judgment.

Even so, the setbacks suffered this year have been bitter medicine. A good many are looking to other fields—real estate, oil leasing, direct investment in small businesses, and to other less conventional opportunities.

Real estate and oil have been favorite outlets, yet even here, investors report smaller potential profits than in the past. A Syracuse investor, who has done well says that "I wouldn't buy land today with prices the way they are." Several Los Angeles investors found that the apartment houses they bought failed to return profits, mainly because the demand for housing dropped with the onset of the recession.

Just the same, real estate continues to attract smart money because of its tax advantages. For those in the know, or who take the pains to find out, it is still worthwhile for other reasons. In Denver, the more speculative investors who made killings in uranium are buying up parcels of land that are zoned for residential purposes. Then they press for zoning changes—for business occupancy—that could mean big profits.

A New York money manager gets syndicates together to buy up old houses in fashionable sections of Manhattan, then refurbishes them for renting as "bachelor" flats—with as many as 16 high-rent units per building.

Some top-bracket smart money men think this is a good time to hold tax-exempt bonds. These offer little appreciation and rarely yield more than 4%, but to a man in a high bracket they are a good haven for funds.

• Oil and Mining—Tax advantages are the main reason for the continued—but waning—popularity of oil and mining proposals. In an oil drilling lease, about 70% of the cost of operating can be treated as a tax deduction; if you hit, there's the 27½% gross depletion allowance—on up to 50% of taxable net

income—which is a big lure. Moreover, the profits from selling a going well are considered a long-term capital gain.

All the same, there has been a definite drop in oil investments. The costs of drilling are going up, and profits have not kept pace. In Houston, a center of oil ventures, smart money is now turning to foreign investment.

• **Long Shots**—Despite the prevailing caution, a minority of smart money managers are out for big gains. Some feel that it is essential to go outside the U.S.—mostly to Latin America. Others think that there is plenty of opportunity here, if you take some risks.

A Memphis syndicate practically doubled its investment by building a shopping center and residential housing project. They hit the jackpot because they got Sears, Roebuck, to rent a store, which promptly drew other national retail outlets. In contrast, a number of shopping center projects—in New York, Pennsylvania, Ohio, and Illinois—failed because of overbuilding.

Big money has been made by an Atlanta group specializing in businesses and property—preferably distressed companies that, pepped up with a little money, can be sold at a big profit. This syndicate has bought a hotel, a meat packing concern, and a bank. It came out way ahead on the first two and is hunting a buyer for the bank.

• **Local Business**—Many smart money men are now concentrating on bankrolling small local businesses they think can prosper. They prefer this to stock market deals or other transactions that depend on a lot of intangibles.

Everywhere, on the other hand, there's interest in investments abroad—both short-term and long-range. A California man with real long-term plans has bought up 750,000 acres in Australia for development, expects to make big profits over the next 15 years. A lot of smart money is finding its way into Canada, where second mortgages in Toronto pay 20% to 30%.

There are even richer pickings in Latin America, provided you're willing to tangle with risks and red tape. One well-informed money manager says that secured short-term loans in Brazil can yield up to 36%—although getting your money out is an involved procedure.

• **Odds and Ends**—In addition, a lot of smart money men are willing to risk capital in off-beat ventures—where they get mixed results. Colorado businessmen report doing well by financing insurance companies. A Pittsburgh man has settled on backing a home swimming pool company, and a number of Californians have put funds into cheap "quickie" films that often provide a big payoff.

Schenley Recoups Its Bad Bet

Senate's Finance Committee approves the "Whiskey Amendment" extending by 12 extra years excise tax deadline on whiskey stocks built up during Korean War.

With a nine-to-two "aye" vote the Senate Finance Committee last week tacked the "Whiskey Amendment" to the government's excise tax laws and settled—apparently once and for all—a furious feud that has split the domestic whiskey distilling industry for more than five years.

The New York Stock Exchange's reaction was pointed: Schenley Industries, Inc.'s stock bounded up 4¼ points while stocks of other distillers gained no more than half that.

• **Longer Deadline**—The change that the committee approved permits a U.S. distiller of bonded whiskey to let his stocks age in the warehouse for up to 20 years before paying the $10.50-a-gal. excise tax on them. At present, the law says distillers must pay the tax on whiskey in bond after eight years—regardless of whether they sell the whiskey or even take it out of the warehouse. As well as extending the deadline, the Senate committee recommended making the change retroactive.

The House last year approved this amendment and it's expected the Senate will agree quickly to it. But the Finance Committee wasn't enthusiastic about having to decide the issue. Said Sen. Robert F. Kerr (D-Okla.)—himself a teetotaler—"You can't fit a halo around anyone's head in this case."

• **Spectre for Schenley**—Halo or no, the committee's approval is a long-sought victory for Schenley. It has a heavy stake in domestic production of bonded whiskey (that is, bourbon or rye that's aged for at least four years in a government-inspected warehouse).

Its interest in extending the eight-year tax deadline is even greater. When the Korean War started, it stepped up production sharply in anticipation—falsely, as it turned out—that government materials allocation controls would be set up. Other domestic whiskey distillers did the same but Schenley, because of its size and its interest in the bonded whiskey market, built up heavier stocks than most others.

Thus this year it had a large—though undisclosed—share of the total 33-million gal. of bonded whiskey pressing up against the tax deadline, and an equally large stake in the 93-million gal. due to reach the deadline next year.

Without a change in the law, distillers would have to meet a tax bill of $1.4-billion on this whiskey in this and the next fiscal year.

• **Gambling**—It was a dramatic switch that put Schenley in the position of having to pay a sizable part of this bill. Its Pres. Lewis S. Rosenstiel had made a similar bet on wartime controls a decade earlier and had won.

In 1938 when whiskey sales were near their lowest, he built up heavy stocks, acquired new distilleries. His bet paid off: Schenley's sales and net income increased sevenfold from 1940 to 1946 while its competitors' gained between three and four times.

His bet in 1950 and 1951 on a similar gamble fell through. So did his competitors'—but their stocks were not heavily in bonded whiskey, the type affected by the excise tax deadline.

• **Distillers' Battle**—Two of the other big four domestic distillers—Joseph E. Seagram & Sons, Inc., and Hiram Walker & Sons, Inc.—have fought the "Whiskey Amendment" as vigorously as Schenley has pushed it. National Distillers & Chemical Corp. backed Seagrams and Walker.

Seagrams specializes in blended whiskeys, cares less about the bonded type. Walker is a major distiller of Canadian whiskeys sold in the U.S. For five years they have argued before both houses of Congress, and before the Tariff Commission that the amendment is a "private bill for the relief of Schenley," giving it an unfair advantage: It could leave its huge stocks of bonded whiskeys in the warehouses and market them later as 10-, 15-, or 20-year-old whiskeys—products that its competitors couldn't match.

Schenley's counterattack charged that Seagrams and Walker, as wholly owned subsidiaries of Canadian companies, have an advantage because they have a wider choice of alternative markets. When their stocks of whiskey in bond in the U.S. are high, they can avoid getting caught by excise tax deadlines by shipping the whiskey in bulk to Canada, bottling it in their plants there, and selling it as blended or straight whiskey in Canada or the U.S. Schenley complained it couldn't do this because until recently its Canadian subsidiary and its markets there have been far smaller than its competitors'.

The Treasury stayed out of the tax argument until a year ago. Then it urged that Congress adopt a compromise that would have extended the bonding period to 20 years, but not made the change retroactive.

Instead, the Senate Finance Committee backed Schenley.

In Business

• • •

Airline Orders 50 Jets for Medium Runs; Will Lease Engines in New-Style Deal

American Airlines this week put on a sprint in the jet transport race that left its rivals a bit breathless. The line ordered 50 new medium-range jet transports—25 Boeings and 25 Convairs—with an option for 50 more. The industry saw major significances in the deal:

• **It showed that American will use straight jet equipment on such lucrative medium runs as New York-Chicago.** It's generally felt that use of the planes—including the fastest-of-all Convairs with GE's radial turbofan engine (BW—Apr.12'58,p70) will force other airlines to follow suit.

• **American is buying the planes, but leasing the engines;** it's the first time the aviation industry has used the equipment leasing system that has been tried by the railroads. Not only is American leasing the GE engines for the Convairs and the Pratt & Whitneys for the Boeings, but it has renegotiated an earlier order for 35 Lockheed Electra propjets, and will lease the Allison engines.

• • •

Subsidy for Old Colony Commuter Line Seems Assured as Legislature Acts

Within two weeks, the state of Massachusetts will probably O.K. a $900,000 subsidy for continued operation of the New Haven RR's Old Colony commuter line (BW—Jul.12'58,p28). The Senate and House this week agreed to the measure; a minor hitch in wording remains to be worked out, but the bill should be ready for Gov. Furcolo's signature next week.

The bill sets a precedent for at least partial state support of commuter railroads—the sickest segment of the sick railroad industry. Subsidized service would start Oct. 1.

Other commuter roads in the Northeast didn't fare so well. Nine lines operating in New Jersey had asked deferment of almost $15-million in taxes due Dec. 1 (BW—Jul.19'58,p36). But municipal officials who will spend the money, and Gov. Meyner, who will collect it, have rejected the plea.

• • •

Republic Buying $35-Million Ticket In the Astronautics Sweepstake

Republic Aviation Corp. this week pulled up a chair at the astronautics table—the last major aviation company to get in on the just-about-filled ground floor.

Republic's program, for $35-million in research and development on space technology, is relatively modest compared with Convair's talk of a $500-million four-man space station, and hopes of keeping development costs of the Minuteman missile under $100-million. **But for Republic, it means a doubling of its scientific and engineering staff, plus new lab facilities.**

The company points out that it is using its own, not government, money. This seems in line with the expected dropping by the military of space research, as distinguished from missile work. If that happened, with the civilian NACA and ARPA (page 21) taking over the space work, Republic would be in a much better position to work with the agencies than could its defense-oriented rivals with government-built facilities.

Rocketdyne Div. of North American Aviation, Inc., is cranking up to develop **a single-chamber rocket engine that will deliver 1-million lb. of thrust.** The work will pick up steam after Rocketdyne puts the final touches on the five-rocket engine it unveiled this week to propel the Atlas intercontinental missile.

• • •

Argentina Nears Deal for Development Of Oil by U.S., European Companies

Argentina, with huge proved oil reserves, has finally gotten around to tapping the foreign finances and know-how that are essential to developing them. The government of Pres. Arturo Frondizi has signed preliminary agreements with a group of U.S. and West European companies to handle the job.

Details of the agreements have not been released, but it is known that the companies include Standard of Indiana, Conorado Petroleum, and the New York investment house of Carl M. Loeb, Rhoades & Co.

Frondizi took the action—a red flag waved at the nationalists—when the pressure of mounting deficits and the need to buy oil abroad overcame the reluctance that had stayed the hands of government since dictator Juan Peron. At the same time, Frondizi announced that Russia had offered to swap $100-million of drilling equipment for agricultural products.

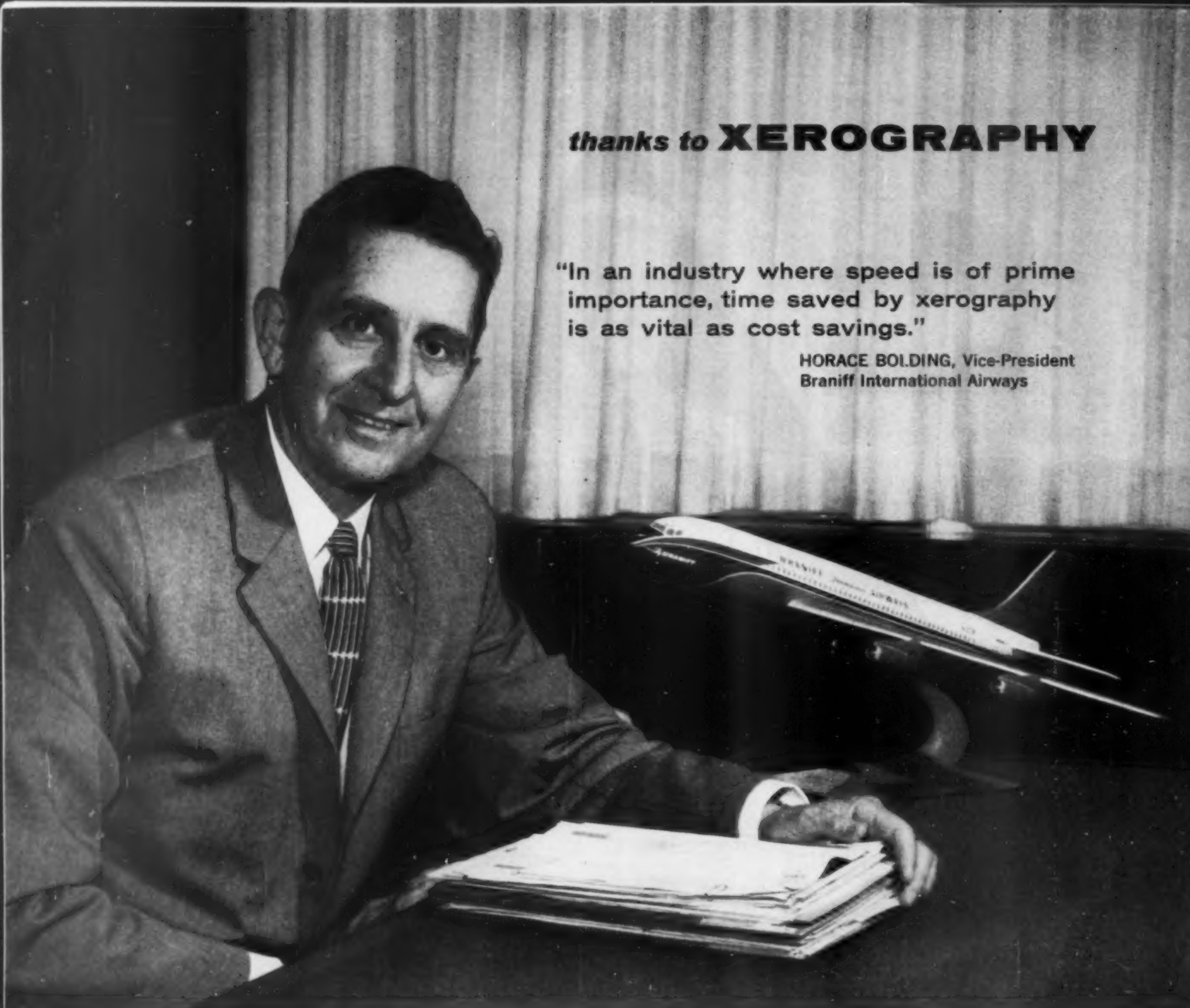
• • •

Coast Utility to Build Power Plant Harnessing Underground Volcanic Steam

Pacific Gas & Electric Co., which produces electricity from steam and water power and which is building a nuclear plant, expects to add another arrow to its quiver: **steam generated naturally deep underground in volcanic areas.**

PG&E has signed a letter of intent to build a 12,500-kw., $2-million setup to use steam from the wells already drilled in northern California by Magma Power Co. and Thermal Power Co. (BW—Feb.11'56,p84). Approval by the state Public Utilities Commission is needed.

The project would be the first commercial harnessing of underground—or endogenous—steam in the U.S. But steam wells have been producing since 1905 in Italy, while Mexico and New Zealand are working on projects. All three are government operations.



Braniff prepares for the jet age fast and economically... saves $30,000 yearly in reproduction of training manuals

With its first Boeing 707 jet airliners scheduled for delivery in 1959, Braniff International Airways is relying on xerography and offset duplicating for fast and economical copies of maintenance, ground operations, and flight-training manuals to educate its 5,000 employees in the transition from conventional aircraft of today to the jet era of tomorrow.

"Thousands of pages of highly technical information, charts, and illustrations will be reproduced by xerography and offset duplicating at one-fourth the cost of the photo-negative process," says Horace Bolding, Braniff's vice-president—purchasing and stores. "We'll save at least $30,000 yearly.

"In addition, there will be continuous changes and modifications that will require updating the manuals regularly. In an industry where speed is of prime importance, time saved by xerography is as vital as cost savings."

Xerography, the world's most versatile copying process, can help *you*, too. Write for proof-of-performance folders showing how xerography is saving time and thousands of dollars for companies of all kinds and sizes. HALOID XEROX INC., 58-18X Haloid St., Rochester 3, N. Y. Branch offices in principal U. S. and Canadian cities.

HALOID XEROX®

WASHINGTON OUTLOOK

WASHINGTON BUREAU
AUG. 2, 1958

A BUSINESS WEEK SERVICE

Congress will leave Pres. Eisenhower free to run foreign affairs during the rest of the year. That is, when the House and Senate finish work around midmonth, they will adjourn until January. Leaders have no intention of going on a recess schedule, ready to reassemble on their own say so if a crisis arises.

Senate Leader Lyndon Johnson says Congress will quit—and will come back only if the President wants it back, in special session. Some members of the House and Senate wanted to give Johnson and Speaker Rayburn authority to decide whether Congress should return; the two Texans wouldn't stand for it.

The White House is relieved. There had been fears that Eisenhower might have to go to a summit meeting, or handle any overnight emergency, with 531 members of Congress in town, tempted to be side-line quarterbacks. Administration officials imagine what a nightmare it would be to have congressmen second guessing, particularly if Eisenhower and Soviet Premier Khrushchev do sit down at the same conference table.

—•—

Washington is feeling better about results of the Middle East crisis—at home and abroad.

The White House acknowledges that Khrushchev has put up a formidable propaganda barrage. They recognize the Soviet boss as an expert grandstander, think he may have won temporary advantage with his statements about Lebanon and a summit meeting.

But the Administration is convinced that Eisenhower will gain in the end. They believe he will get credit for acting quickly, and they believe the chances are that sending troops did actually avert an outbreak of fighting.

The President has received evidence that the country is supporting him. Officials have telephoned business friends around the country, and find opinion general that there is little fear of panic buying, little expectation that a big military buildup will occur. The Administration feels the economy is turning up healthily, rather than because of "war fever."

—•—

Hoover Commission backers are making a last-ditch try at getting budget reform legislation approved before Congress adjourns. Powerful Appropriations Committee members of both the Senate and House are blocking final passage. Similar versions of the measure, designed to give Congress tighter control of money appropriated to the departments and agencies, have already been approved in both houses.

Appropriations Committee members are opposed. They say the year-to-year accounting it requires would hamper government operations—particularly the military, which buys long lead-time items like planes and missiles.

The measure would permit Congress to appropriate only as much money as the agencies say they will spend in a fiscal year. That is, if only \$10-million of a \$50-million project is scheduled to be spent in a given year, only \$10-million would be voted. Backers assert the measure eventually would save the government \$4-billion a year.

—•—

The school scholarship bill is making headway in Congress. Though there still is strong opposition, chances of passage now are good. The Senate

WASHINGTON BUREAU
AUG. 2, 1958

Labor Committee has approved four-year scholarship aid for gifted students. Total cost: $840-million. The House Labor Committee has O.K.'d a similar bill.

—•—

Eisenhower has put off a fight on veterans benefits. Inside reporting is that Republican congressmen persuaded the White House not to pick a fight with the tough veterans lobby in this election year.

In his budget message in January, Eisenhower indicated he would send a veterans benefit reform program to Congress during the session. It was to have been along the lines of recommendations of the 1956 Bradley Commission, which proposed that benefits go only to men who require aid as a direct result of military service. The commission urged that social security be relied on for servicemen's pensions, instead of setting up a special system.

The President had a message nearly ready at one time. It was taken to the Capitol for tentative approval of Congressional leaders. But then the decision was made to put off the controversy until next year.

—•—

Russian technical translations soon will be put under one roof. Congress has just approved $510,000 for the Commerce Dept.'s Office of Technical Services with which to set up a central clearing house. It will be operating soon, selling abstracts of some 141 technical journals on an annual subscription basis or individually. Other documents will be sold individually.

A list of available Russian documents will be published monthly. That will be in the U. S. Government Research Report. A list of translations currently available can be obtained free by writing the Office of Technical Services, Commerce Dept., Washington, 25, D. C.

—•—

Cities are bidding for the 1960 political conventions. The Republican and Democratic National Committees will set up specifications this month. A site will be selected early in 1959.

The price cities are offering to get the nod is increasing. For years the ante was about $250,000. Now the minimum will be $300,000.

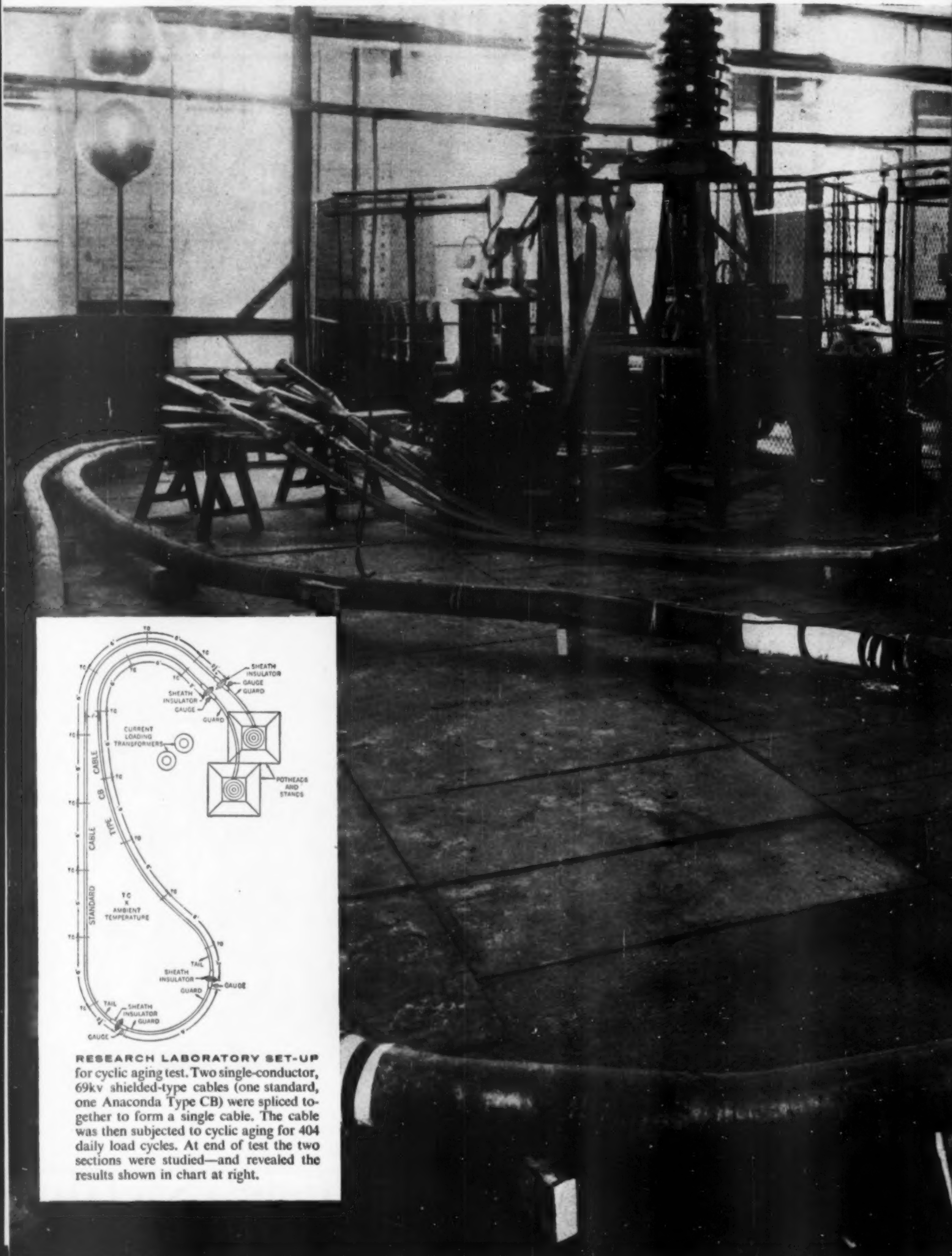
Miami Beach is the newest contender, along with the old standbys: Houston, Atlantic City, Philadelphia, Chicago, San Francisco, Los Angeles. Florida Republicans and Democrats already are putting on an organized campaign, led by Gov. Collins. Miami Beach would take one or both conventions. But it will get two or none; neither party would dare send its Negro delegates south unless the other also agreed to.

—•—

National organization Democrats are cheered by the Texas election. The overwhelming primary victories of conservative Gov. Price Daniel and labor-supported Sen. Ralph Yarborough assure Democratic strategists that Texas will be immune to third party persuasion in the 1960 Presidential election. Party leaders also expect a Democrat, Barefoot Sanders, to defeat the one Texas Republican congressman, Rep. Bruce Alger, in November.

However, Republicans are beginning to regain some confidence across the country. Leaders now feel that the one issue the Democrats had this year—recession—will be dead by campaign time. Officials predict Eisenhower's Mideast policies will be popular by fall, and the voters will react favorably. Democrats believe they will keep firm control of Congress but agree their candidates would do better if the election were held today.

Cyclic aging test on paper-lead power cable reveals



RESEARCH LABORATORY SET-UP for cyclic aging test. Two single-conductor, 69kv shielded-type cables (one standard, one Anaconda Type CB) were spliced together to form a single cable. The cable was then subjected to cyclic aging for 404 daily load cycles. At end of test the two sections were studied—and revealed the results shown in chart at right.

Greater insulation stability...longer cable life with TYPE CB cable

Heat and electrical stress . . . heat and electrical stress—keep it up long enough and insulating oil in ordinary paper cable breaks down.

Anaconda Type CB* (Carbon Black) power cable is different. Special carbon-black tapes continually purify and stabilize the insulating oil over the life of the cable. These carbon-black tapes provide many advantages:

1. Oxidation products are removed.
2. Deterioration is reduced by continuous purification of the oil.
3. Conductor is shielded; strand discharges, and ionization discharges between insulation and sheath are eliminated; maximum stress is reduced more than 25 percent.
4. Destructive energy is reduced because the work function of carbon is much less than that of copper.
5. Surge currents are diminished.
6. Impulse strength is increased.
7. Dielectric strength and life are increased.

The over-all result is not only physical and electrical improvements, but also real economic gains for the user.

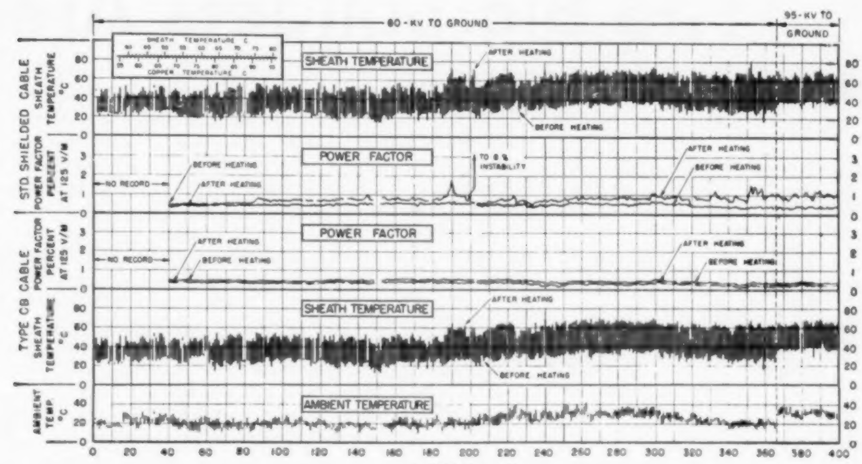
CYCLIC AGING TEST

For dramatic proof, no other test shows stability better than the cyclic aging tests.

The test shown here consisted of subjecting two single-conductor, 69kv shielded-type cables to cyclic aging for 404 daily load cycles. One cable was Type CB, the other a cable of standard construction. Both cables were still in operating condition at the end of the test. The standard cable, however, showed definite signs of aging. The Type CB cable showed no such signs.

WANT TO KNOW MORE? The Man from Anaconda will be glad to give you full information about Type CB cable. See him or write for Bulletin C-89. Anaconda Wire & Cable Co., 25 Broadway, New York 4, N. Y. 56333

*CB—Carbon Black (U. S. Patents 2,102,129; 2,405,853) Reg. U. S. Pat. Off.



CYCLIC AGING CHARACTERISTICS of 1/c, 650 Mcm, 69kv solid-type paper-insulated cable, standard construction compared to Type CB construction. Power factor readings during each cycle show low and constant values for Type CB cable—0.3 to 0.5 percent for both. The standard cable, with the same initial values, increased to over 1 percent at the end of the test. Power factor readings before and after heating during each cycle are also significant. At first, both cables show "after heating" values below those for "before heating." In the standard cable, the trend is reversed (69th cycle) and the "after heating" values are higher to the end. In the Type CB cable, the "after heating" values remain below throughout the test.

LIVE BETTER ELECTRICALLY

SEE THE MAN FROM **ANACONDA**®

FOR **TYPE CB CABLE**

The Big Builders Are Back in

Easier money and mortgage terms have revived the huge housing developments such as the third Levittown (above).

The comeback in the housing boom is unlikely to repeat the record 1.3-million starts of the 1950s, but it is significant that mass producers of low-cost homes—those that are financed with Federal Housing Administration and Veterans' Administration mortgages—are back.

These builders, whose volume runs in the hundreds or thousands of homes, did not vanish during the tight money period, but they did cut down. Now that money has eased, and provisions for federal mortgage insurance have been made more liberal, they are once again cranking up their assembly lines. For example:

William J. Levitt is starting his third Levittown—a New Jersey community of 15,000 houses (picture)—and is tooling up for the first of 4,000 homes on the big Belair race horse farm in Maryland.

Centex Construction Co. of Dallas, which dethroned Levitt as the largest annual producer of housing, announced a 6,000-home project in Hawaii, and stepped up building its 6,000-home Elk Grove Village near Chicago (cover).

The Mackle brothers of Miami, now operating through General Development Corp., have switched emphasis from selling lots to selling homes in their 80,000-acre retirement community, Port Charlotte, on Florida's west coast.

Other builders also are active. John F. Long of Phoenix expects to push production from 1,850 homes last year to 2,300 by requiring no payments until next year for homes delivered this summer. In California, A. L. Branden used Harry James and his orchestra, bathing beauties, and free helicopter rides to lure 26,000 visitors to his San Jose tract a couple of Sundays ago. And Bollenbacher & Kelton, running up against saturated demand around Los Angeles, is building 1,000 homes in San Diego. New York's Webb & Knapp is strengthening its management to invade single-family homebuilding on a large scale.

• **Turnaround**—Tight money had made it particularly hard for mass builders to obtain huge interim bank loans or place government-backed mortgages or both. Thus you had FHA and VA starts slumping from 661,525 in 1955 to 278,428 in 1957, while conventionally financed starts rose.

In recent weeks, FHA and VA starts have turned around. Applications for such mortgages are up even more sharply over a year ago than are starts.

What happened was that as money rates dropped, FHA and VA rates (fixed by law) became less unattractive to lenders. In addition, in the emergency housing act signed Apr. 1 the President (1) reduced downpayments on FHAs, (2) raised VA interest rates from 4½% to 4¾%, and (3) committed the Federal National Mortgage Assn. (Fannie May) to buy both at par.

Mass builders, whose volume depends on a steady flow of money, took heart and made ambitious plans. They even took new interest in VA housing, which several had abandoned because

Business

they were tired of paying discounts of up to 12 points—a method of bringing the rates more in line with the market.

Now better able to finance their production and sales, mass builders have only one other factor to reckon with: the extent of the consumer's desire for a house. Selling is no longer easy.

To sell low-cost homes at the volume they require, the mass builders are concentrating on growth areas—places on the New York-Washington axis, Florida, the Chicago area, Texas, Louisiana, Arizona, and California.

I. Fostered by Need

To understand the role played by the merchant builders, take a look at three of the largest builders of nonprefabricated houses—Centex, Levitt, and the Mackles.

There was no one like them before the war, when 50 homes were considered a large output. Now at least 30 builders turn out in excess of 250. Very few top 1,000. Centex plans to build 3,215 dwellings this year, including 715 on military posts. The Mackles are shooting for 2,500; and Levitt will run from 1,500-2,000.

Essentially, these giants are creatures of the war and postwar boom:

• During the war, demand for shelter stockpiled, as did the savings that enabled people to buy homes.

• Federally backed mortgages facilitated home ownership by featuring low downpayments, long terms, and level payments.

• From war jobs, builders saved cash, learned mass-basis production, as they might never have done if they had to risk themselves on the market.

• **Giants in Business**—These giants can't afford to operate by the seat of their pants. They have to coordinate financing, purchasing, sales, and production. They have to hire skilled men, organize management. In the earlier seller's markets, when they could stand mistakes, they perfected their knowhow.

They could look farther afield than small-scale builders for money, and save on interest. They kept profit-and-loss figures; did cost accounting; learned to schedule procurement of money and materials, full-time crews, and subcontractors for the greatest efficiency. And they learned to merchandise, to make the value they put into their homes more obvious.

It was only natural that they should wind up in low-cost housing. That is where the volume is, the continuity of operation, the lesser risk. Ordinarily, they count on from 5% to 10% profit. Centex, Levitt, and the Mackles operate differently from each other, and it is illuminating to see how.

• **National Operators**—In two respects, Centex is unique. It is the only large homebuilder both to build on a national scale, and to have behind it the credit of a Clint Murchison.

Under the reins of Tom Lively, now 38, Centex was doing well a full five years before Murchison's two sons bought an interest through Tecon Corp., their heavy construction firm. Lively had begun with subdivisions in Dallas, spread into unspeculative military base housing to diversify his operations, and by 1953 was building sale housing across the country.

It was joint military base ventures with Tecon that brought Lively together with the Murchisons. That connection enabled Centex to start the huge project outside Chicago with homes ranging from $17,000 to $21,000. It was through Clint Murchison, Jr., that Centex obtained an interest in a 55-year lease on a 12,000-acre mountainous ranch outside Honolulu.

Centex borrows heavily from banks—at one time had $35-million in bank debt outstanding—and doesn't mind paying high interest because "money is the cheapest thing you can buy." Since it doesn't keep as large a deposit as

banks like, it has to pay a higher interest on its construction loans.

To hedge against softness in sale housing, Centex will be going more into commercial and industrial construction—it has 1,500 acres for industry next to Elk Grove—and will slip in military jobs to occupy its forces when necessary, even though it now faces more competitive bidding for them.

Some day, Centex probably will go to the public for equity funds. But Lively isn't ready for that yet. By having to pay out earnings, Centex would restrict its growth, he says, and Murchison wouldn't be apt to guarantee the occasional large loan he does now "for a bunch of people he doesn't know."

• **Levittown Founder**—After selling two 17,000-home Levittowns in 10 years, Levitt personally is well off. In fact, his balance sheet permits him to get regular commercial loans instead of the more restrictive construction loans.

His first Levittown on Long Island gave him the "community bug." The prospect of the U.S. Steel Fairless Works payroll persuaded him to start his second in Pennsylvania.

He stuck to the name in his new third project because "it's euphonious." He chose the nearby New Jersey site because the Jersey side of the Delaware River is even closer to Philadelphia, as well as to the growing industrial complex of New Jersey. Seeing "a four-lane expressway with interchange going into the White House in 25 minutes" convinced him to bid for the Belair Farm property (BW—Aug.31'57,p38).

In Levittown, N. J., he is building homes ranging from $11,490 to $13,-900, next year will add $18,000 models. In contrast to previous practice, he will mix in homes of varying price—an experiment that bankers question.

He also has made other changes from previous Levittowns. One is the traffic pattern. He will have a parkway on which cars can cross town fast. In the first Levittown, "You go nuts trying to get out."

Levitt says he could stay busy in New Jersey for 30 years, doesn't want to expand nationally because "I can only eat three meals a day and live in four houses at once."

• **Florida Market**—What makes the Mackles unique is that they have a national market to sell and are spending $2-million annually on advertising.

The three brothers—Elliott J., Frank E., Jr., and Robert F.—took over the business their father started in Jacksonville in 1908 as a commercial construction firm. In 1941, Mackle Co. got a Navy housing contract at Key West that taught its men mass production.

After the war, the brothers filled up their subdivisions around Miami before hooking up with Investors' Diversified Services to build on a bigger scale for workers migrating to Florida. When the late Robert Young took over IDS and pulled it out of real estate, the Mackles found a new source of capital in Chemical Research Corp., a company with idle cash that changed its name to Florida Canada Corp.

That's when the Mackles hit on a new tack: retirement housing. Replies to a Collier's magazine ad showed that many people want to retire to Florida, and they designed a $5,000 house—$1,500 cheaper than their cheapest GI home—to suit a retired family with a monthly income of $160.

Joining 50-50 with Florida Canada to form General Development Corp., they started the first retirement community at Pompano Beach. It struck gold. They went into a number of other projects of retirement and workers' homes across southern Florida. In each, Mackle Co. did the construction for General at cost.

This year, the Mackles made themselves a better deal. Starting the huge Port Charlotte development, they traded their half interest in the old General Development for 10% of a new company of the same name, became officers, and contracted that Mackle Co. get a cut out of the sale of each lot, the construction of each house.

For 50% of a jointly held company for which they worked at cost, the Mackles acquired 10% of a company traded on the American Stock Exchange and get a cut besides. Since beginning development last year, the Mackle-General tie-up has sold 40,000 lots and 840 houses at Port Charlotte—on the site, by mail, and through brokers across the country. Houses start at $6,960.

II. Community Builders

Men such as the Mackles, Levitt, and Lively are even more than merchant builders. They are community builders. With the merchant builders of several hundred houses they have some things in common:

Finance: They all must take time to cultivate lenders for the best deals. They must see that they get the maximum appraisals from VA, which sets their maximum price, and from FHA, which evaluates a house. During the tight money period, if money was available at all for VA mortgages, the builders had to pay large discounts; savings banks were the main takers. The life insurance companies feared provoking policyholders by discounting VAs. The life companies didn't mind discounting FHAs because the discounts were smaller and they were not wrapped in the emotions attending veterans benefits.

Purchasing: They must be sure of a continuing flow of materials, buy in carloads to get the lowest price. Centex

may pay more by working through middlemen, but figures the extra cost is less than the cost of interrupted work. They buy quality grades, often above FHA minimum standards, to prevent buyers' complaints at one end of a tract while homes still are for sale at the other end. They can buy appliances for half or so of retail prices, so they throw in as many as local market conditions require. They fear delinquencies less in a well-equipped house.

Production: Technology has progressed slowly. Some preframing, presawing, and mechanization are more common. The pattern is to have a stockyard on the site for doing much of the work. Some parts are standardized for a whole section. Builders often find it more economical to use subcontractors heavily. While production is fast, it can't get too far ahead of sales.

• **Cost Plus**—But building entire communities—more than houses alone—involves additional operations. It costs more, but it offers more, too.

In a sense, communities were forced on the builders. As large cities ran out of large undeveloped tracts, and adjacent suburbs were unable or unwilling to absorb large developments, the builder had to go to unincorporated land in the country.

Homebuilders are accustomed to putting streets, sewers and water mains in ordinary developments. But when they start putting four houses on each acre of raw land in the country, they need a lot more—schools, stores, churches, recreation facilities—to sell houses.

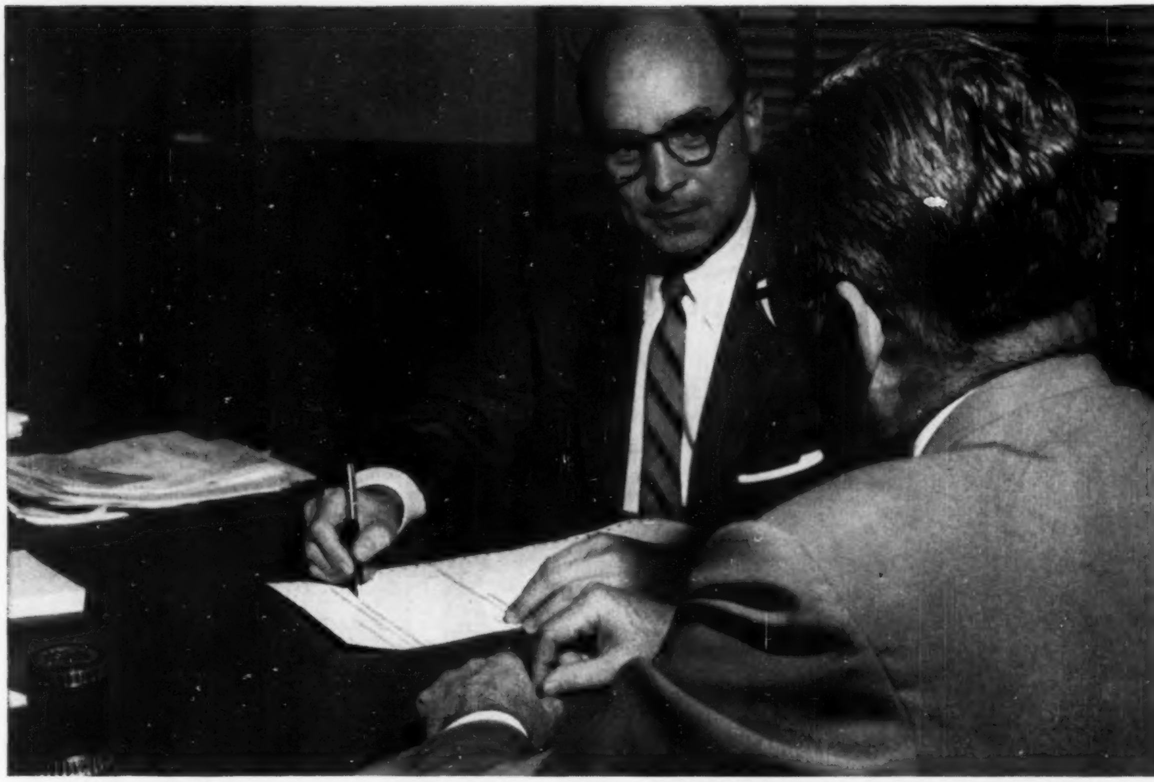
Men such as Levitt and Lively build the schools and parks, and donate them to the communities. This isn't so generous as it may sound, however. First, nearness to schools helps sell houses. Second, the costs of the school and the like are spread among the number of homes: FHA includes such amenities in its valuation.

So far as the shops are concerned—and perhaps the water systems—the builders like to retain them as permanent investments.

Houses no longer are look-alikes built in gridiron patterns. In recent years, builders have come to take advantage of natural terrain.

They save the expense of leveling the countryside, instead lay out their streets and mains along the troughs. Generally, curved patterns enhance the value of the homes, allow builders to pick better situated lots for costlier houses, may actually result in more lots because there are fewer streets.

In place of the cookie-cutter kind of housing, there is a mixture of floor patterns, colors, exterior facing, and elevations. Buyers can't buy a particular house where they want it, but must take their preferred model on one of the lots assigned it. END



John T. Farrell, Controller, and W. George Gardom, Supervisor of Mechanical Accounting—Rockwell Manufacturing Company.

How Teletype helps Rockwell speed service, increase work output

Rockwell Manufacturing Company, producer of meters, valves, regulators, control equipment and power tools, has many reasons for using Teletype equipment.

Major sales gain – no clerical increase. "In the five years since we installed Teletype equipment", says Rockwell's Controller, John T. Farrell, "our sales have jumped from 88 to 122 millions of dollars."

"In spite of an attendant 300 percent increase in the number of daily messages, the message center staff was not increased . . . still numbers two girls."

Report time cut. "Since the installation of Teletype equipment", says W. George Gardom, Supervisor of Mechanical Accounting, "numerous reports, such as monthly accounting reports from plants, are transmitted to headquarters by wire."

"This enables us to speedily 'deliver' monthly operating statements. The manual methods we used before took many days."

Teletype enables Rockwell:

1. To give faster, more direct, more efficient service to customers.

2. To handle a greater volume of material without increasing costs.

3. To set up a regular, more economical schedule of transmission between plants and headquarters.

4. To prepare messages in advance . . . transmit on schedule . . . leave Teletype machine unattended and still receive all incoming messages.

More information. These are just the highlights. Full details are yours for the asking. Write to Teletype Corporation, Dept. 10 H, 4100 Fullerton Avenue, Chicago 39, Illinois.

TELETYPE®
CORPORATION
SUBSIDIARY OF *Western Electric Company* INC.

Sewage Stepup

Building of municipal cleanup systems would be speeded by \$1-billion, 10-year proposed federal grants.

Financially hard-pressed cities and towns turned their eyes toward Washington this week as Congressional Democrats scored in a recurrent battle with the White House to broaden federal aid for municipal sewage cleanup projects.

At stake: a proposal, backed by city officials and major wildlife protection societies, to provide \$1-billion in federal construction grants for municipal sewage treatment projects. Under existing and proposed federal aid programs, the grants are designed to stimulate some \$6-billion in total new spending over the next decade by thousands of communities.

• **Club in the Closet**—Congress, in spite of strong Administration opposition, launched the program two years ago—tying a \$500-million, 10-year federal grants fund to the beefed-up federal Water Pollution Control Act. This law was aimed chiefly at giving the government stronger powers to crack down on municipal and industrial polluters of interstate streams.

The new enforcement authority since then has been used in nearly a score of cases as a club in the closet to prod state pollution control agencies into revitalizing their moribund programs against stream polluters. But the construction grants program has grabbed most of the headlines. It has stimulated \$351-million in city spending on building new or improved water treatment plants, a 40% increase over the spending average of the previous five years.

• **More Help**—Such groups as the American Municipal Assn. claim that even this rate is not enough to overcome the huge backlog of needed sewage plant construction.

Last week, Congress responded to their pleas when the House Public Works Committee—ignoring White House threats to end the program next year—overwhelmingly approved a new and extended program. Democrats believe they can get the measure through Congress with such strong support that the President will not veto it.

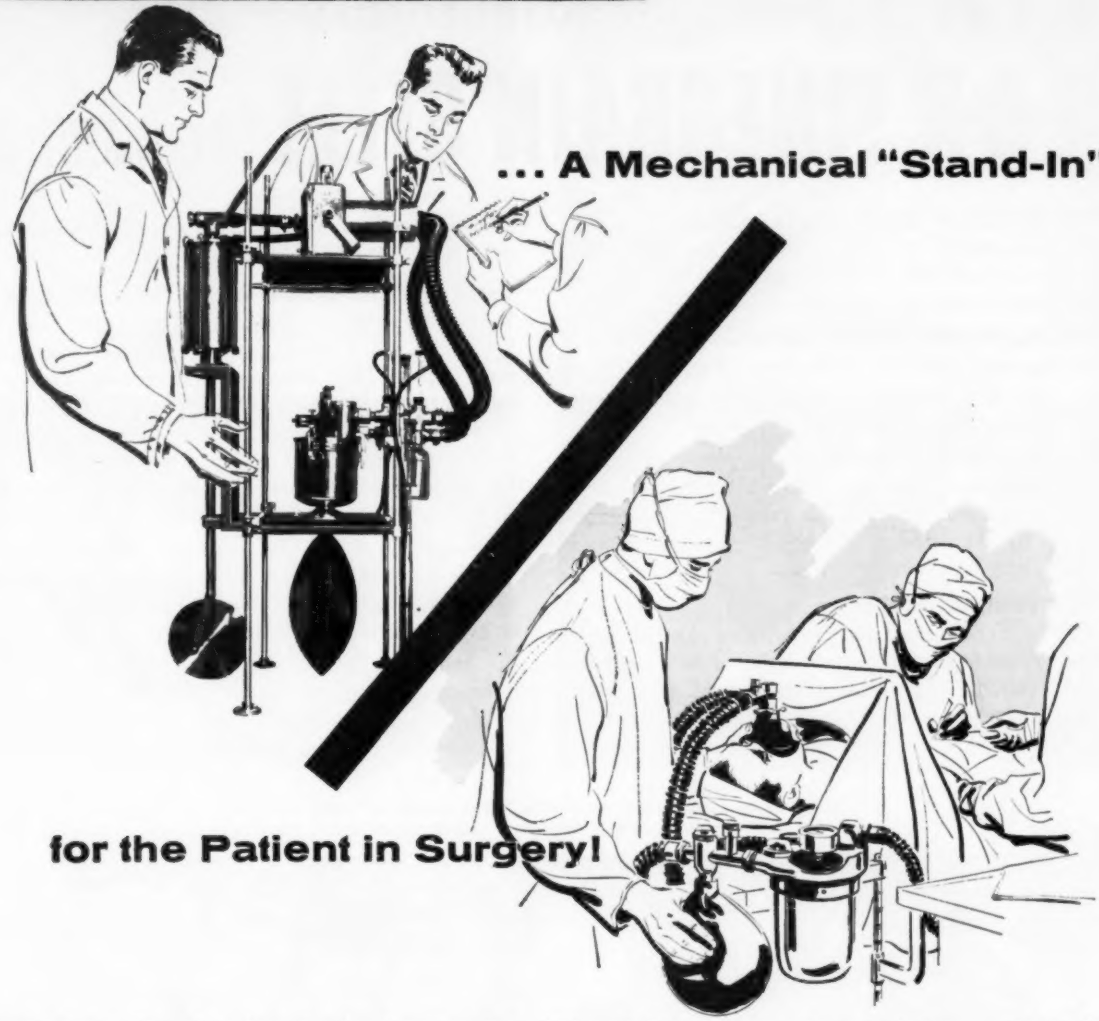
Here's how the bill would speed up municipal sewage treatment works:

• It would raise total federal grants to \$1-billion over a 10-year period, starting next July. This would supersede the existing program.

• The annual limit on federal grants would rise to \$100-million from \$50-million under existing law. **END**

DEWEY AND ALMY RESEARCH AT WORK:

... A Mechanical "Stand-In"



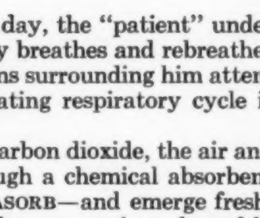
for the Patient in Surgery!

Hour after hour, day after day, the "patient" under anesthesia in our laboratory breathes and rebreathes the same air. The technicians surrounding him attentively watch as the fascinating respiratory cycle is repeated again and again.

Exhaled full of harmful carbon dioxide, the air and anesthetic are passed through a chemical absorbent —Dewey and Almy's SODASORB—and emerge fresh, clean, and free of CO_2, ready once again to be safely inhaled. Exhalation, CO_2 absorption, inhalation . . . over and over . . . the same air, the same patient.

This laboratory patient of ours will never experience the skilled incision of the surgeon's scalpel. Although his breathing characteristics exactly duplicate those of the human patient illustrated above, our "patient" is but a machine whose sole purpose is to ensure the utmost reliability of SODASORB under all conditions. It is an example of the imaginative, but practical research constantly taking place at Dewey and Almy.

Similar research is our stock in trade in each of the many diverse fields we serve . . . intensive research that constantly strives to improve performance, increase convenience, and lower costs. Whatever your special interest in the products listed below, we'll be happy to furnish complete details. Write today.



SODASORB
CO_2 ABSORBENT

W. R. GRACE & CO.
DEWEY AND ALMY CHEMICAL DIVISION

Cambridge 40, Mass. • Chicago 38, Ill.
San Leandro, Calif. • Montreal 32, Canada

BATTERY SEPARATORS • CHEMICAL PRODUCTS FOR THE CONSTRUCTION INDUSTRY • CONTAINER SEALING COMPOUNDS • "FLOWED-IN" GASKETS
METEOROLOGICAL BALLOONS • ORGANIC CHEMICALS • ROCK PRODUCTS CHEMICALS • SHOE MATERIALS • SODA LIME • TEXTILE PRINTING PRODUCTS

Why automotive manufacturers prefer N-A-X® FINEGRAIN STEEL for bumpers

WIDE RANGE OF SHAPES AND CONTOURS

The complexity of today's automotive bumpers demands a steel that provides maximum strength plus unlimited shape and contour possibilities.

FLAT POLISHES TO A HIGH LUSTER

The hardness and fine grain of N-A-X FINEGRAIN renders this steel capable of assuming a high degree of luster at minimum cost.

REDUCES POLISHING COSTS

Bumpers made of polished N-A-X FINEGRAIN suffer no surface disturbances due to coarse grain or strain caused by the drawing process. Preparation costs before plating are thereby reduced.

LESS OVERHANG WEIGHT

Generally, the most difficult bumpers can be made of N-A-X FINEGRAIN with a minimum of 25% increased yield strength over mild carbon steel. This makes possible greater resistance to indentation and substantially decreased overhang weight.

No wonder automotive manufacturers prefer dependable N-A-X FINEGRAIN for the difficult jobs.

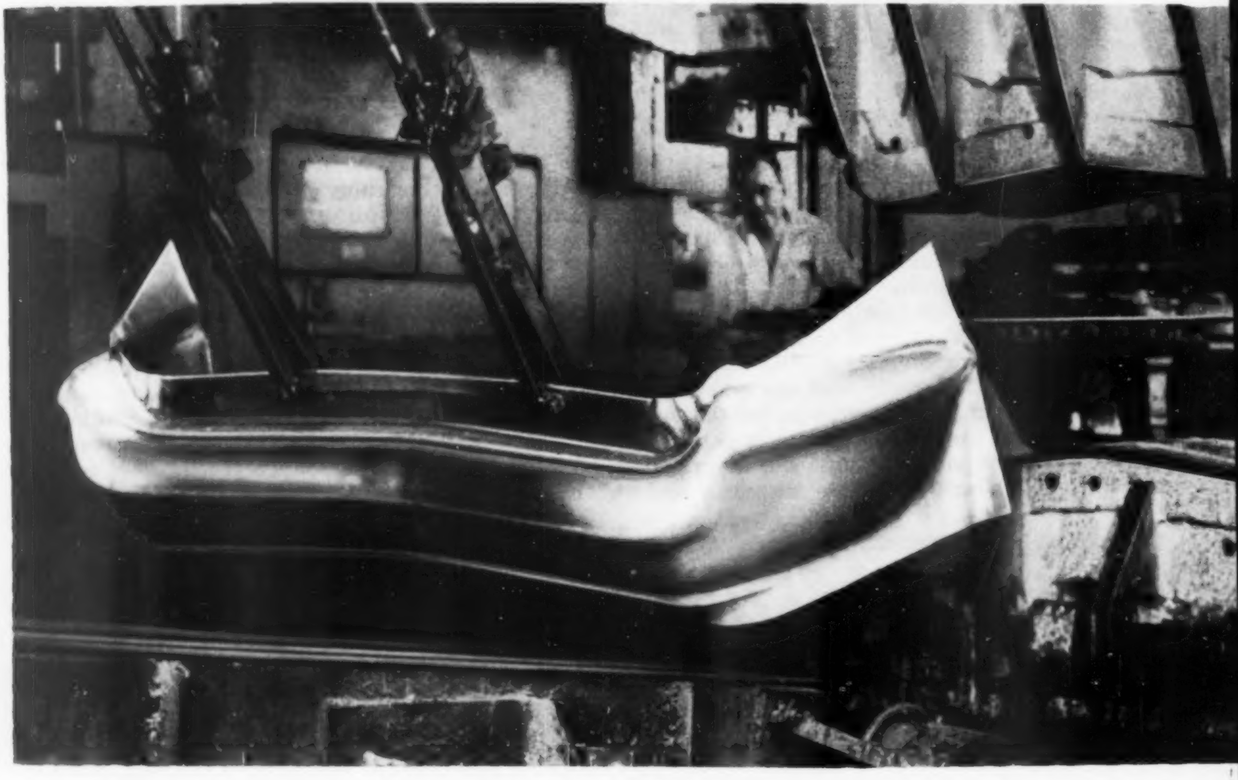
CHECK THESE IMPORTANT ADVANTAGES FOR YOUR JOB:

N-A-X HIGH-STRENGTH steels—both N-A-X HIGH-TENSILE and N-A-X FINEGRAIN—compared with carbon steel, up to 50% stronger • have high fatigue life with great toughness • are cold formed readily into difficult stampings • are stable against aging • have greater resistance to abrasion • are readily welded by any process • offer greater paint adhesion • polish to a high luster at minimum cost.

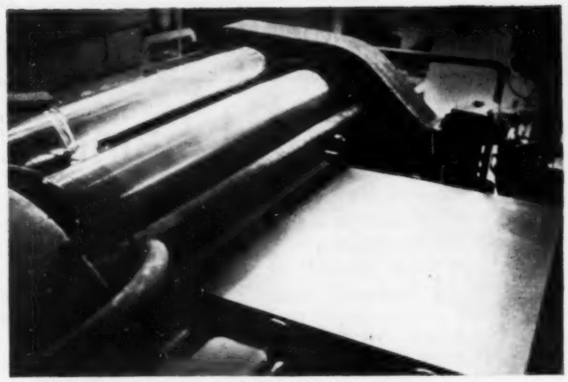
Although N-A-X FINEGRAIN'S resistance to normal atmospheric corrosion is twice that of carbon steel, N-A-X HIGH-TENSILE is recommended where resistance to extreme atmospheric corrosion is important.

For whatever you make, from steel boats to steel bumpers, with N-A-X HIGH-STRENGTH steels you can design longer life, and/or less weight and economy into your products. Let us show you how.

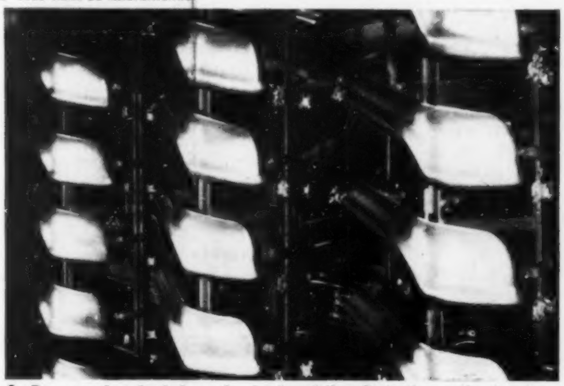
3 Bumper wings, drawn double from N-A-X FINEGRAIN, emerge from press. After splitting and trimming, the protective draw coating is removed. Contoured bumper is then ready for plating without subsequent polishing.



1 Hot rolled N-A-X FINEGRAIN sheets come out of flat polish with a finish of less than 10 microinches.

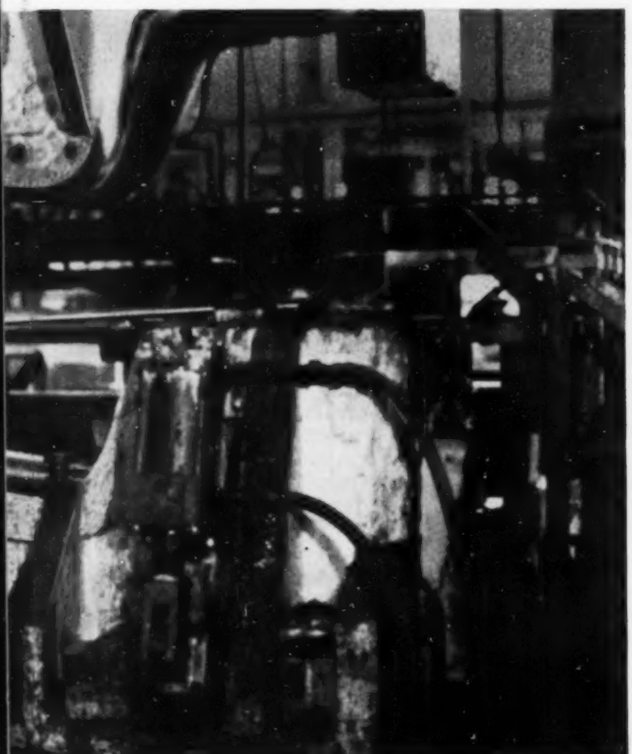


2 Sheet with protective phosphate and draw coatings comes from coating machine ready for the draw press.



4 Bumper wings loaded on elevator for plating. Protective coating has been removed. Note no surface disturbances occurred after drawing operation.

5 Final inspection after plating. No expensive hand-polishing was required from original flat polish to plating operation.



N·A·X

HIGH-STRENGTH STEELS

Product Development Division, Dept. BW-6

GREAT LAKES STEEL CORPORATION

Detroit 29, Michigan • Division of

NATIONAL STEEL CORPORATION

Product Development Division, Dept. BW-6

Great Lakes Steel Corporation, Detroit 29, Michigan

☐ Please send me 12-page illustrated technical catalog on N-A-X HIGH-STRENGTH steels.

☐ Please have your representative contact me.

Name__________ Title__________

Company__________

Street__________

City__________ Zone_____ State__________

Doctors and Saints

BUSINESSMEN who try to keep an eye on what is happening to the learned profession of economics may have noticed, in recent months, a fresh outburst of criticism of economists by economists.

Gardner C. Means, in the Harvard Business Review, attacks his colleagues for living in an 18th-Century dream world instead of waking up to realities. The 20th-Century national economy, says Means, is dominated by huge corporations, not by atomistic enterprises of the type Adam Smith envisioned. These corporations, says he, are not controlled by the price system; rather, they themselves make and control prices. So Means wants economists to build a comprehensive new model for studying the economy as it really is.

Wassily Leontief, in the Review of Economics and Statistics, finds economists split into two equally foolish camps—pure theorists on one side, fact-grubbers on the others. Says Leontief, quoting the 18th-Century economist Francois Quesnay: ". . . Theory and observation, which are reconciled perfectly, if combined in a single person, whenever they are separated wage against each other an incessant but futile war." Leontief clearly wants economists to do more of the sort of work he has done in input-output analysis.

Colin Clark, in the British journal Encounter, like Leontief condemns economists who engage in "extremely recondite theoretical work, little of which will ever be of any value." But Clark then lets fly at Leontief and his followers for their "pointlessly detailed and time-wasting analyses called input-output tables. . . ." Clark wants economists to worry more about how to improve "the material welfare of mankind," which Clark considers "the perfectly definite end" of economics. Specifically, Clark wants economists to throw their weight behind a drive to reduce taxes.

But **J. Kenneth Galbraith**, in his new book The Affluent Society, thinks the real trouble with American economists is precisely that they go on brooding about the problem of increasing material welfare, now that America is rich.

Increasing production, says Galbraith, is stupid; people don't really want any more goods; they have to be forced down their throats by Madison Avenue. What the people really need (even if they don't know it), he argues, is more government activity to improve public health and education, halt the decay of cities, and answer other social needs.

So, says Galbraith, economists should recognize that taxes should not be cut, even to cure recessions, because government's role must be greatly expanded. Indeed, taxes, especially sales taxes, should be raised. This will stop people from buying more goods and give government more money to spend on public services, which will increase individual and social happiness. Economists who prefer to let people decide for themselves what they want to do with their money, says Galbraith, are misguided spokesmen of "the conventional wisdom."

OBVIOUSLY, Means, Leontief, Clark, and Galbraith think that something is rotten in the state of economics. But what is it? Can the four of them—taken as a small but not particularly unrepresentative sample of the profession—simultaneously be charged with being old-fashioned, conventionally wise; blind to the modern corporation's role, unaware of imperfect competition and price rigidity; too theoretical, too factual, too mathematical; neglectful of material welfare, fixated on material welfare; too fond of high taxes, too eager to cut taxes; too trustful of the wayward consumer and advertising man, too enamored of governmental controls? Can the state of economics be as ghastly and muddled as these critics make out?

It can't, and it isn't.

WHAT THE HAPLESS businessman clearly needs is a guide to the names and numbers of the critics:

Gardner C. Means, consultant to the Fund for the Republic, wrote a fine book, The Modern Corporation and Private Property, with A. A. Berle, in 1932. Since then, he has pretty continuously charged economists with not paying enough attention to the Modern Corporation.

Wassily Leontief, of Harvard University, invented input-output analysis in the 1920s and has been developing it ever since. He has persistently criticized his fellow economists for not using intricate schemes to permit meaningful analysis and interpretation of vast amounts of factual information.

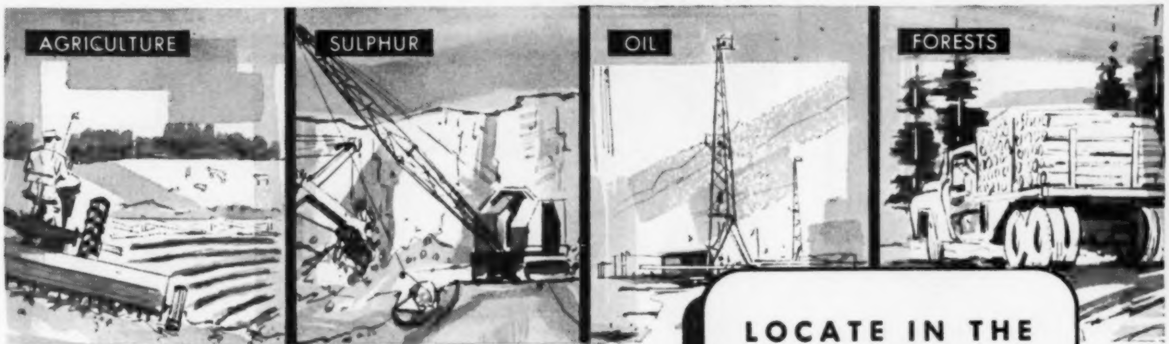
Colin Clark doesn't hate all econometrics; indeed, he has just become research director of the Econometric Institute, Inc., an organization that applies mathematical methods to industrial analysis and forecasting. In 1940 he wrote The Conditions of Economic Progress, a statistical analysis of the state of material welfare throughout the world. In 1945 he contended that the maximum safe limit of taxation for any country was 25% of net national income; ever since, he has been blasting other economists for failing to join him in a campaign to reduce taxes—as a way of stopping inflation.

J. Kenneth Galbraith, of Harvard University, once an Office of Price Administration economist and Fortune magazine editor, was a top brain truster for Adlai Stevenson during the last Presidential campaign. He's not, however, easy to pigeonhole ideologically.

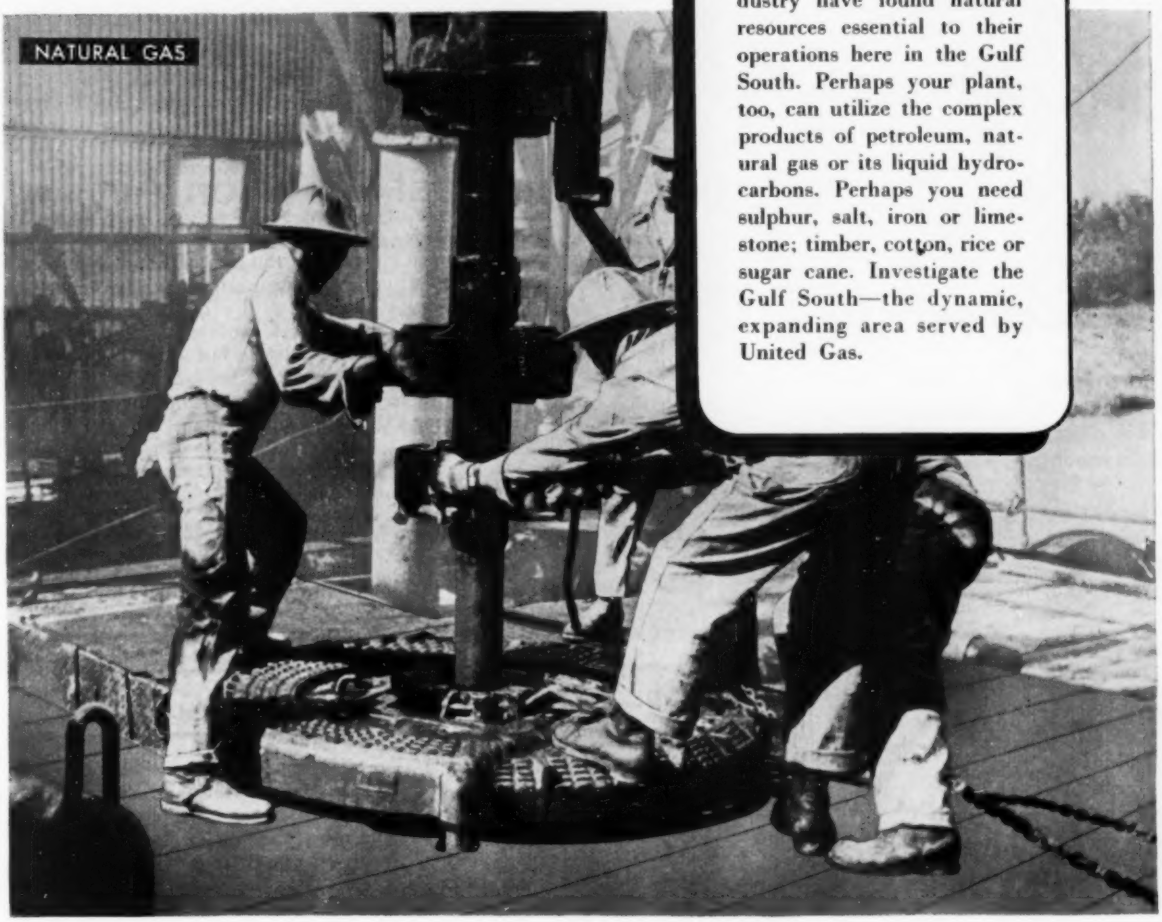
One of his critics, whose own economic ideology is Eisenhowerian, considers that Galbraith's latest book represents a desperate attempt to find a new garment for old-style Socialism or New Dealism. The American economy has survived the dire predictions that it could not provide material welfare for the masses, could not avoid serious depressions and unemployment, and could not grow. So Galbraith has now developed a new charge: that the American political-economic system permits the nation's resources to be used for the wrong purposes, mainly for producing more junk that nobody really wants.

Omar the Tentmaker summed up a comparable situation:

Myself when young did eagerly
 frequent
Doctor and Saint, and heard
 great argument
About it and about: but evermore
Came out by the same door
 where in I went.



NATURAL RESOURCES
to help industry grow



LOCATE IN THE
Gulf South

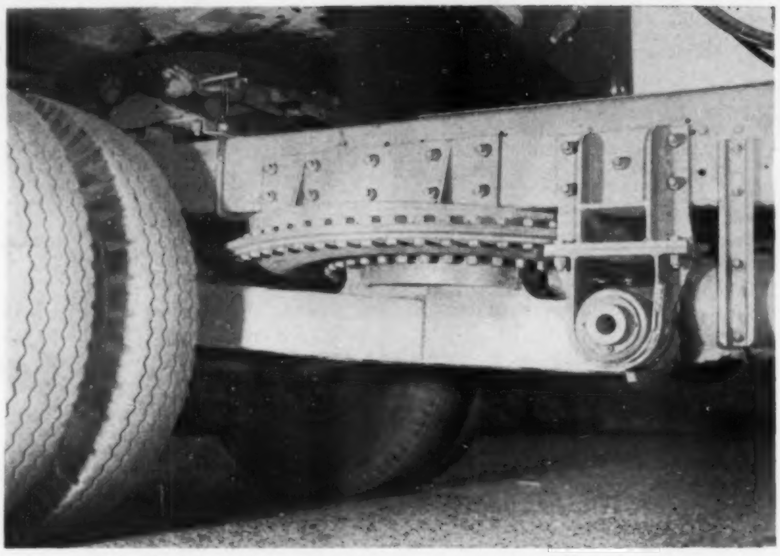
Big names in American industry have found natural resources essential to their operations here in the Gulf South. Perhaps your plant, too, can utilize the complex products of petroleum, natural gas or its liquid hydrocarbons. Perhaps you need sulphur, salt, iron or limestone; timber, cotton, rice or sugar cane. Investigate the Gulf South—the dynamic, expanding area served by United Gas.

UNITED GAS SERVING THE *Gulf South*

If fuel is a factor in your operations, write United Gas, P. O. Box 1407, Shreveport, La.

UNITED GAS CORPORATION • UNITED GAS PIPE LINE COMPANY • UNION PRODUCING COMPANY

NEW PRODUCTS



AIR SUSPENSION system developed by Air Springs is simpler than usual. It's . . .

Easy Way to Float Loads on Air

More trucks, cars, and buses soon may carry their loads on air. A new air suspension system has been devised that does away with leveling valves, torque arms, and shock absorbers, which have been problems for many users of conventional, bellows-type air suspensions.

In the new system, the load is sprung on a centrally located diaphragm in a circular chamber. The diaphragm is of multi-ply construction, like a tire, and the manufacturer claims it will outlast the vehicle. A typical installation uses a diaphragm 42 in. in diameter, which will support a load of over 48,000 lb. at 35 psi. air pressure.

• **Easy Letdown**—If air is lost for any reason, the frame will come down evenly on the snubbers and the vehicle can be driven into the garage that way. The system also makes it possible to raise an axle without using a jack. All you do is let air out of the system until a hook on the frame engages a catch on the axle. When air pressure is restored, the axle is carried up with the frame.

The diaphragm is designed to absorb shock from any direction, so no bracing is needed.

Air Springs, Inc., New York, developed the system, and has licensed it for manufacture to Reynolds Mfg., Springfield, Mo., a division of Alaska Juneau Gold Mining Co. Costs are comparable with steel springs.

NEW PRODUCTS BRIEFS

A floating floor provides easy installation and access to piping, ductwork, or cables. It consists of 36.5-in. square modules; each contains four cast aluminum plates and is placed in a steel frame resting on adjustable pedestals, which stand directly on the subfloor. Specially cut plates allow the piping to be brought up above the floor. Since the units are interchangeable, floor arrangements can easily be changed. Manufacturer: Floating Floors, Inc., New York. Cost: $5.50-$6 per sq. ft. with vinyl tile surface.

•

A burglar alarm for trucks operates on a 6-volt storage battery independent of vehicle power. It is tamper-proof, has a high-powered siren for its warning system. One of the system's two locks controls the cargo compartment, and the other the truck's "parker" to prevent unauthorized moving of the vehicle. Manufacturer: Electronic Locator Corp., New York. Cost: $240.

•

A high temperature alloy called René 41 has been developed by General Electric Co. Intended for sheet-metal use, it's a titanium-aluminum, nickel base material that can be used from room temperature to the 1,800F range. It was designed for severely stressed jet engine components, but GE says it's also suitable for afterburner parts, turbine casings, and the like.

In Management

• • •

Cities Service Foiled Again in Try To Escape SEC Holding Company Rule

Cities Service Oil Co. has just lost out on its third try to get out from under Securities & Exchange Commission regulation as a public utility holding company. Last week, the Third Circuit U.S. Court of Appeals turned down Cities' plea. Last January, the U.S. Supreme Court refused to hear the oil company's case, and prior to that, the Second Circuit Court had also ruled against it.

The nub of the problem lies in Cities Service's 51.5% holdings in Arkansas Fuel Oil Corp. Cities Service first registered with the SEC as a holding company in 1941 but immediately began selling off its utility subsidiaries. This process was completed by 1954, except for Arkansas Natural Gas Co. Under an SEC-approved plan, the utility part of Arkansas Natural Gas was split off and sold. The production part, renamed Arkansas Fuel Oil Corp., was retained.

This left Cities Service apparently outside the jurisdiction of the Holding Company Act. **Not so, said SEC. It pointed to the presence of minority stockholders in Arkansas Fuel Oil and said they might be discriminated against.** Said the SEC, in effect: "Sell your 51.5% of Arkansas Fuel Oil or buy up the minority interest, and then we'll exempt you." Cities Service has so far refused to do either, because, it argues, there is no discrimination.

• • •

Conoco Establishes New Hierarchy For Its Scientific Personnel

Tackling an old problem that's new to many companies, Continental Oil Co. of Houston has come up with a new set of titles and official kudos for its scientists. **This week the company announced the establishment of three new positions—research associate, senior research associate, and research fellow—for its scientific staff.** To start, there will be six research fellows, the highest of the new positions. Conoco says this job is comparable in rank to research division director, a supervisory position also held by six men in the company's 400-man research department.

The reason for the switch: "True researchers often prefer to stay with their chosen research field rather than take line assignments. But in order to get ahead, many have had to switch to administration," says the company. The new setup will assure research men the same opportunity for advancement as their administrative counterparts, says Conoco.

This approach, previously tried in a number of other concerns, has its difficulties, say outside scientists. Researchers truly disinterested in the administrative promotion ladder, they contend, are equally disinterested in other company titles. Instead they look for most of their recognition from the scientific community. And, unlike administrative titles, research titles are not comparable from company to company. Hence, they don't carry much weight in the outside community. However, other scientists, many of whom have been left out in the cold in regard to corporate status and emoluments, think Conoco's move is a step in the right direction.

MORE NEWS ABOUT MANAGEMENT ON:

• P. 54 Walter Paepcke's Container Corp. fights competition with design and offbeat philosophy.

• • •

Pillsbury Profits Zoom Despite Sag . . .

Among the nation's food companies, which are doing relatively very well in a general recession, Pillsbury Mills, Inc., recently set something of a record.

With sales up 6%, it racked up a profit increase of 40%. For the fiscal year ended May 31, Pillsbury's sales hit $351-million, compared to $331-million the year before, and profits rose to $5.6-million, as against the previous season's $4-million. Officials give credit for the juicy profits to the sales gain, increased plant efficiencies, and a tight rein on commercial expenses.

. . . But All Is Not So Well Elsewhere

On the other side of the fence, many capital goods producers have been hit hard. **Van Norman Industries, Inc.**, the diversified production machinery and electronics manufacturer, reported an as-yet-undetermined loss for the first half of 1958. The company is cutting salaries of executives drawing more than $8,000 a year 5%, and Herbert I. Segal, the concern's president, says he is taking a 10% cut.

• • •

Management Briefs

John E. Bierwirth, 63-year-old president of **National Distillers & Chemical Corp.**, moved up to chairman of the company last week. Roy F. Coppedge, Jr., 43, executive vice-president and one-time lawyer for the giant liquor and chemical concern, in turn stepped up to president. Bierwirth remains chief executive officer.

Joining the opposition: Hamilton Watch Co., pressed by foreign competition, last fall licensed a low-cost Japanese producer to manufacture its watches. Now it's preparing to set up shop in the midst of its biggest competitors, the Swiss. It recently got the nod from the Federation of Swiss Watch Manufacturers to build or buy a watch assembly plant.

Industrialist Louis Wolfson no longer has a voice on the American Motors Corp. board. His two representatives, Martin Segal and William A. Shea, resigned from the board last week because Wolfson no longer has holdings in the company. The SEC had charged Wolfson with fraud and deceit in alleged short sales of AMC stock.

THE TOP MAN. Chmn. Walter Paepcke (left) is very much the boss at Container Corp. of America, but Executive Vice-Pres. J. V. Spachner can act in his stead.

Packaging

Container Corp.'s individualistic boss, Walter Paepcke, sells quality and design, frowns on price cutting.

There's a revolution going on in the packaging business—embracing as it does paper, metals, glass, and plastics, all broken down into specialties within specialties. Over-all production has grown—for paperboard packaging materials at a steady 5% per year since World War II—while the number of producers has dwindled. Segments of the trade have been merging with outfits in the same specialty to grow, and then re-combining with other specialties to become full-line giants.

Two theories, held by most of the industry, have pushed this trend:

- Packaging has grown from a mere way of covering and shipping a product into a market force all its own.
- Market tastes shift so fast that it's expedient for the major company to be able to give the customer whatever he wants at a given moment, be it metal, glass, paper, or plastic.

One giant in the industry—Container Corp. of America and its unconventional boss, Walter Paepcke—go along completely with the first theory. But they want no part of the second. Right now, they're reasonably content to be the largest outfit in the area of paperboard packaging.

• **Paperboard**—In the $3.5-billion paperboard market with its 400-odd competitors, Container Corp. does a healthy 7% with its $256-million sales. It does even better in some of its products. It makes 10% of the folding cartons that wrap the thousands of items on supermarket and department store shelves, 21% of the fiber cans that hold everything from frozen foods to toys to books to automotive parts. It is probably the largest single maker of the "big cartons" used to ship appliances and the like.

Container Corp., like almost everyone else, has felt the slump; so far this year, sales are off 1.6%. But from Paepcke on down, company men are not worried; they're confident that they'll double their volume within five years. Whether there's a specific plan on how to do the doubling is moot. Paepcke says he turned away from formal long-range planning as a boy, when he bought some half-rate advance tickets to a golf course, and then was rained out of using his bargain.

• **Growth in Spurts**—Container is no stranger to growth. It started in 1926 when Paepcke, at 29 already running

With the Stress on Design

the family owned Chicago Mill & Lumber Co., took over two more outfits and ambitiously renamed the combination Container Corp. of America. Within a year, sales were up to $11.7-million. There have been spurts of expansion ever since, with some properties bought and resold several times.

At the end of the war, assets were $43-million. Since then the company has spent $160-million on expansion, and now lines up with 25 factories for shipping containers, 14 for folding cartons, and 6 for fiber cans.

For now, the company thinks that's plenty, especially in an industry that's running at the generally accepted break-even point of 85% of capacity. So Container Corp. is settling down to digest its acquisitions, while flexing some other muscles to take care of competition.

• **Design**—One of the toughest of the company's muscles is design. CCA claims an impressive list of firsts from its labs—carry-home beer packages, multi-can and mixed-product wraps, four-color screen printing for cartons. The carry-home packages—Container has patents on both the design and the machinery to make them—have strongly affected the marketing methods of its customers.

Top management takes a close interest in design. And the main design lab is set smack in the middle of a plant floor, where the artists rub against production realities.

Albert Kner, director of design, says his men can work in two ways. "Our artists can be free thinkers—make an unusual package, not necessarily with a specific customer in mind, then give the package to management and let them find a customer." One example: Candy makers grabbed at a flat board that snapped up into a pyramidal box.

• **Merchandising**—At other times, the designers work closely with customers, delving into the psychology and philosophy of marketing. They insist that a basic purpose of the container is to identify the product—to "sell the steak instead of the sizzle."

Kner has a further refinement: The chief psychological impact of a product should be at the point of use, not of purchase, or of advertising. CCA persuaded a tea company to shift from a red package to beige—because the bright red promised an excitement that the relatively bland product couldn't deliver. With the softer color, sales picked up smartly.

In a somewhat similar vein, the company persuaded a cake-mix maker to change an "easy" tear-off tab on its box to one needing 3-lb. pressure. Research had indicated that some housewives feel guilty at using pre-mixed food, and salve their consciences by working harder to open the package.

Since the war, CCA has quadrupled the personnel of its design group, partly to cope with an increasing number of outside commissions. Up to now, the emphasis has been on small cartons, but the company feels that better design in the big containers could tap a big market, using the often-handled cartons as "five-sided billboards."

• **Overseas Activity**—Another of Container Corp.'s muscles is its foreign business, which jumped 17% last year

DESIGN DIRECTOR Albert Kner (left) is a key man in a company that counts on quality. Here he makes suggestion to member of his fast-growing staff.

"THERE'S ALWAYS AN ARGUMENT," says Paepcke, when he gets together with Spachner and Pres. Wesley M. Dixon (pointing). "Otherwise, why bother," says the boss.

and is growing so fast that Paepcke predicts it will account for a solid quarter of the $500-million annual sales he expects within five years.

The company says it got into foreign business "by following our customers." When a farm equipment maker branched into South America and a soap maker set up a Mexican branch, CCA established local box plants to supply them on the spot.

Native business proved easy to get. The locals had always bought cartons purely on a price basis. Says a CCA official: "No one has shown them how paying a higher price for quality saves money. A Mexican glass manufacturer, for example, learned first from us that he could pay double for his shipping containers and still make a saving because of less breakage."

CCA has invested $11-million overseas, mostly since 1955 in West Germany and five Latin American countries. Now the subsidiaries are healthy enough to finance their own expansion.

• **Flexibility**—A prime strength of Container Corp. is its ability to meet competition on two levels. It can rally its collective might to meet the threat of such giants as Continental Can, which boasts it can supply any package in any material. At the same time, CCA's many plants, widely dispersed and distinctly autonomous are able to meet the challenge of local competitors.

This local competition can be rough for a company that, like CCA, frowns heavily on price cutting, and puts its sales stress on quality and design. Little outfits, not burdened with CCA's heavy overhead for large capacity and special equipment, are able to snatch a good many "marginal" customers. This coin has its opposite side: When business picks up, CCA's capacity, speed, and versatility enable it to gain faster than the industry average. Even in this recession year, CCA has lost nothing in the "merchandising" packages where color, functional design, and originality weigh heavily. Of course, that's partly because many of its customers here are in the food and beverage industries, which have scarcely felt the slump.

• **Integration**—Container Corp. is integrated from pulp to finished product—and this can be a drag in a declining market. The company must have paperboard capacity to handle the peak needs of both its own fabricating plants and its customers; when both demands shrink, much capacity is idle. And almost half of CCA's "normal" business is in big containers; this is hurting, with the steep slump in appliances and automotive parts.

Paepcke refuses to worry much about short-term economic swings such as the present decline, or about the cry of "industry over-capacity." "The ills of the industry," he says "are not from

over-capacity at all. Some are from obsolete equipments, some from the seasonal nature of the business. The industry must keep its built-in excess for meeting peaks."

What does worry Paepcke is return on investment, though he and his family control less than 1% of CCA stock. He objects to squeezing the stockholders, even to pay for expansion. He's annoyed by the way rising costs have gnawed into the profit margin, but adds: "We get more return per invested dollar, and have probably invested less per dollar of sales than any competitor —and that's a better mark of good management than profits in terms of percentage of sales."

• **Always an Argument**—At 61, Paepcke is still very much the boss as Chairman and Chief Executive Officer. But since 1956 he has been delegating more authority to Pres. Wesley M. Dixon and Executive Vice-Pres. John V. Spachner, either of whom can act in Paepcke's stead. Says the headman, "Whenever the three of us get together, there's an argument. Otherwise, why bother?"

Always an individualist, Paepcke often departs from the general thinking of the industry. A great believer in decentralization, he even provided the different districts with their own research and development labs. "You can afford better people that way," he says. "They seem to solve technical problems faster without a central bureaucracy."

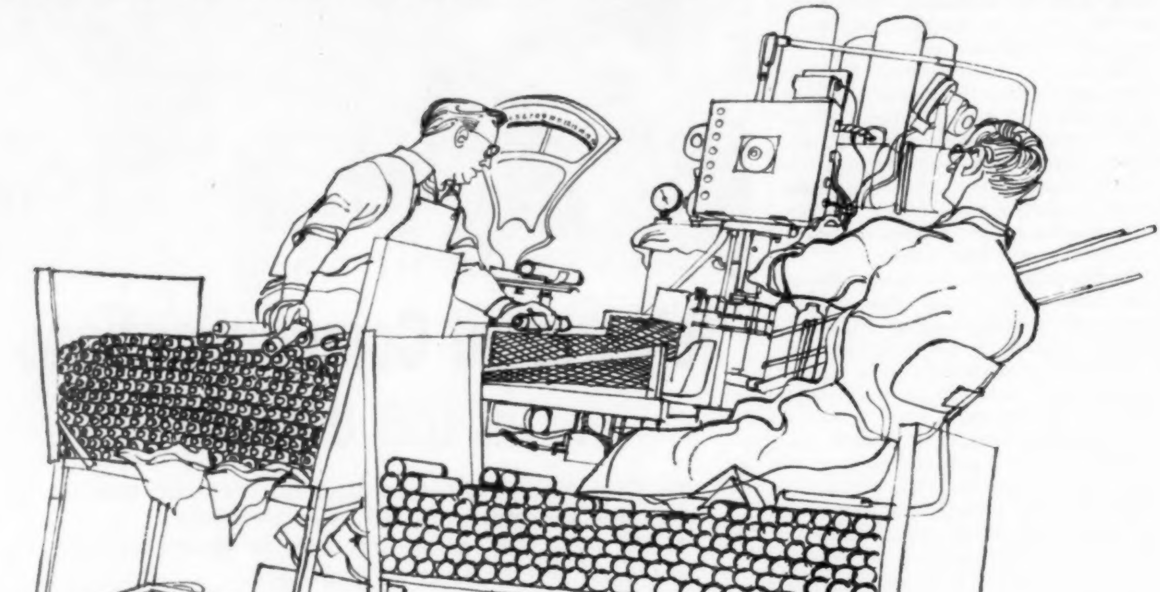
In the paper industry, many companies believe in buying large timber stands as a hedge against inflation. Paepcke dissents: "If I have $25-million to spend I can invest it better in capital improvements that will pay off sooner than two generations."

• **Humanities**—Paepcke is notably interested in the care and feeding of management, and has been a force in developing the management seminars at Aspen, Colo., which are modeled on the Great Books Clubs. A strong believer in drilling the humanities into management men and hopefuls, he stresses hiring liberal arts graduates: "It's easier to give a man job experience," he says, "than it is to give him a broad background to apply that experience to." And it's an unofficial company policy "never to stop hiring a screwball," if the man shows a quick mind, a knack for ideas, and ambition. CCA prides itself on not having a "company type."

Another Paepcke specialty is his insistence on "no formal long-range planning." He argues that, "positive statements about the future are plain silly. You can see further, and move faster, if you haven't committed yourself to specific plans, and are able and willing to take advantage of a short term situation. We use an approach—not a chart projection." END

PEOPLE ARE THE REAL DIFFERENCE BETWEEN PRODUCTS

Fire never gives you a second chance. Extinguishing equipment must work the first time, every time. That's why Ansul manufacturing people are so important to your fire protection program. Their rigid control of every manufacturing step is your assurance that Ansul fire extinguishing equipment is always ready for action. Write us. We'll be pleased to tell you more about Ansul fire extinguishing equipment and about our unique Fire Protection Service Plan.



ANSUL CHEMICAL COMPANY / MARINETTE, WISCONSIN

FIRE EXTINGUISHING EQUIPMENT / INDUSTRIAL CHEMICALS / REFRIGERATION PRODUCTS / NATIONAL DISTRIBUTORS OF "FREON" REFRIGERANTS

INTERNATIONAL OUTLOOK

BUSINESS WEEK

AUG. 2, 1958

A BUSINESS WEEK SERVICE

The summit conference is on again—after nearly being called off.

Chances are it will take place within the next few weeks, in New York, Geneva, or perhaps Paris. It probably will be held within the framework of the 11-member U. N. Security Council. If that's the case, there probably will also be a separate Big Four meeting, with the U. S., Britain, France, and the Soviet Union talking privately.

The conference isn't likely to solve anything much. It may even sharpen the East-West struggle. Soviet Premier Khrushchev (page 22) clearly believes he has forced the conference on us. He reached an all-time peak of arrogance in his midweek summit note to Pres. Eisenhower.

Eisenhower and Secy. of State Dulles are in a grim mood. They concede that world opinion has pushed the U. S. to the summit. But they are not prepared to yield to Khrushchev's expected proposals, either for a Middle East settlement or on any other East-West problems.

Washington partly spelled out its summit policy at this week's meeting of the Baghdad Pact powers in London.

There, Dulles took the toughest stand possible. He reaffirmed the U. S.' adherence to the pact. More important, he made the U. S.—for all practical purposes—a full-fledged member of the pact, which includes Iran, Turkey, and Pakistan in the Middle East, and Britain.

Dulles flatly refuted Moscow's claim that only "friendly governments" be permitted close to Soviet borders. In fact, the U. S. now is fully committed to intervene quickly, even if "indirect aggression" threatens pact members.

—•—

At midweek, chances for a Lebanon settlement looked dim.

The feuding parties had seemed ready to compromise on Gen. Shehab as president-elect. **Then Nasser stepped in, evidently backing up Khrushchev's indirect effort to keep the pot boiling until a summit conference.** The rebels now have demanded that the president-elect commit himself to Nasser's United Arab Republic.

Thus, there is little hope that the U. S. will be able to withdraw Marines and soldiers from Lebanon before the summit meeting—if it comes off soon.

Another trouble spot coming up at a summit meeting is Jordan. At the moment, there is no sign of a solution for Jordan that would permit the withdrawal of British troops. They will stay as long as King Hussein wants.

Finally, in any discussion of the Middle East, there's the question of Israel. At the summit, Khrushchev may propose to cut down Israel's size, as demanded by Nasser, and to prohibit further immigration there. These proposals would be totally unacceptable to the West.

—•—

Washington strategists believe that, in the end, Khrushchev's moves at the summit will end far off target. They think he already has overplayed his propaganda.

Khrushchev won't be able to dictate a Middle East settlement—his primary objective. If Washington is right on this, then the Arab countries

BUSINESS WEEK
AUG. 2, 1958

may be more willing to go along with solutions to the Middle East crisis that are acceptable to the West.

Washington also believes that Khrushchev will fall flat in his attempts to split the West over the Middle East. Gen. de Gaulle's demand earlier this week that the summit meeting take place in Western Europe outside the U. N. raised Khrushchev's hope of dividing the Western powers. But Britain and France now feel they can smooth over this rift with de Gaulle.

De Gaulle has his own score to settle with Khrushchev. That's over Nasser's increasing, Soviet-backed interference in North Africa. De Gaulle will want Khrushchev to agree to a hands-off policy there.

—•—

The Western powers soon will recognize the revolutionary government in Iraq. This doesn't mean the West really expects Iraq to be neutral or even pro-West (as the new government claims it is).

The background of many members of the new regime precludes a pro-West policy. Real power still seems to be in the hands of the pro-Nasser military group at the top. But the makeup of the coalition government isn't so simple as that. It includes extreme nationalists and outspoken left-wingers. The man to watch is Gen. Najeeb el-Rubaiya, who played a leading role in the Nazi-inspired 1941 revolution.

—•—

Western Europe will be hit by a recession this fall. That's the prediction of a group of U. S. and European economists working for the Organization for European Economic Cooperation (OEEC).

The British government, accepting this forecast, has invited European countries to take concerted anti-recession measures. These would include expansion of domestic credit, reduction of interest rates, and long-term loans to overseas primary-producing countries to help them keep up imports from Western Europe. The OEEC council expects to meet in October to review the measures taken by the countries.

—•—

The World Bank has called a meeting for the end of August to cope with India's foreign exchange crisis. Representatives of the U. S., Canada, Britain, West Germany, and Japan will meet in Washington to see what can be done to avoid India's defaulting on its commercial debts. The bank itself and several of the governments concerned are ready to put up money to help India—if the short-term trade debts can be funded by general agreement among the creditors.

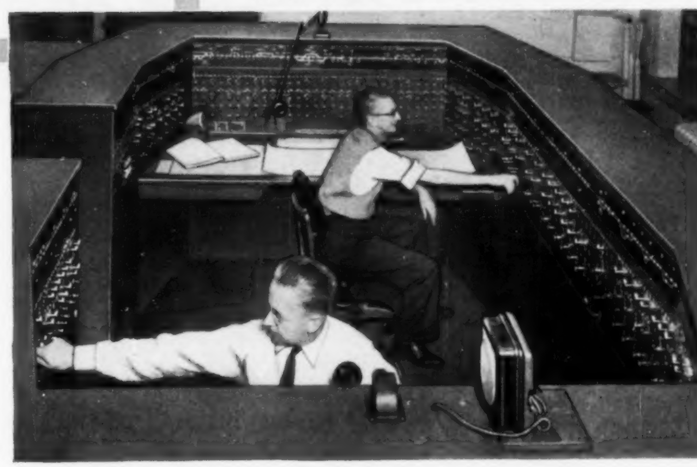
—•—

Congress finally is acting on the U. S. program to give technical and financial assistance to Euratom, the six-nation atomic power agency in Western Europe. Euratom plans to build 1-million kw. of atomic power capacity in Western Europe by 1963.

The Joint Committee on Atomic Energy, which has heard enthusiastic testimony from atomic industry experts, is almost sure to approve the program. But time is running out for a vote in both houses before Congress adjourns. **The Administration will push hard for quick action.** Otherwise, officials fear the whole program, which they compare with the Marshall Plan in its importance to Western Europe, is likely to go down the drain.

Keeping Up-To-Date To Handle Your Freight

All switches and signals on a 238-mile stretch of railroad in three states from Roanoke, Va. to Hagerstown, Md. are controlled by these two men at this Centralized Traffic Control board in Roanoke. Extension and improvement of Centralized Traffic Control is one of the many forward steps the N&W is taking to provide increased safety and efficiency.



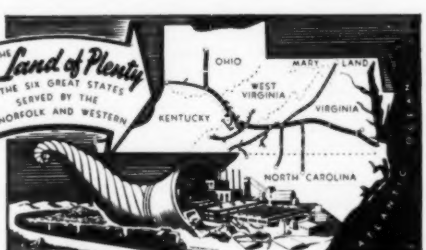
Last year the Norfolk and Western plowed back into its plant $70.1 million for improvements and additions in a continuing program of modernization — an average of $192,000 per day to provide better service to shippers in business and industry located in The Land of Plenty, the productive six-state territory served by the Railroad.

Producing better railroad service is a job that's never finished. It calls for endless research, planning and preparing for "the best job possible today and a better job tomorrow."

The Norfolk and Western's policy of *preparing today for the traffic of tomorrow* is not new to this railroad. For example, since World War II, the N&W has spent and authorized $456,000,000 in a consistent program to make this one of the most efficiently operated railroads. These expenditures are concrete evidence of the N&W's faith in the future of its territory and the continued progress of the nation's economy.

Last year, the Norfolk and Western . . .

- Placed in operation 120 new diesel locomotives (30 additional this year and will buy 268 more); installed diesel servicing facilities.
- Acquired 4,135 new freight cars. (The N&W has more freight cars per mile of track than any American railroad of 250 miles or more in length).
- Completed a new freight car shop at Roanoke, Va., with a construction capacity of 20 new cars per day.
- Began a 5.13-mile extension (nearing completion), including boring of an 8,240-foot tunnel, with eight miles of tracks for servicing new coal mining operations in Southwestern Virginia.
- Completed a substantial percentage of a program of Centralized Traffic Control.
- Installed electronic hot-box detectors and extended use of a new freight car lubricating system to 75% of rolling stock.
- Installed radio equipment on locomotives and in terminals to provide more efficient train operation "on the road" and quicker switching of cars in major yards.
- Completed an extensive new warehouse and other improvements at its merchandise freight piers at Norfolk.
- Installed switchboards and additional carrier circuits for improved communication on a large section of the road and began a similar program on another section.
- Completed substantial enlargement of yards at South Norfolk, and added new grain handling equipment at the company's grain elevators at Sewells Point, Norfolk, Va.
- Strengthened bridges, provided better clearances through tunnels and cuts, replaced many miles of track with heavier rail, extended passing sidings and made scores of other improvements.



Write, wire or call — N&W freight traffic Sales and Service representatives are at your service in 40 key cities of the U. S. They welcome the opportunity to serve you. They can save you time, money and shipping headaches. Call them — there's no obligation.

Norfolk and Western RAILWAY

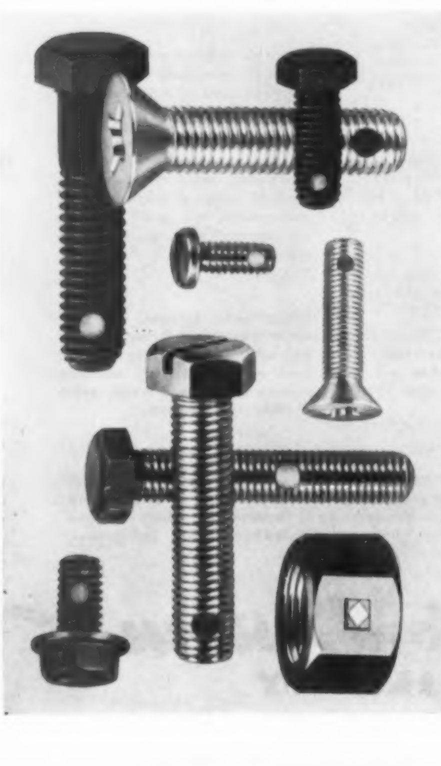
"We've <u>built</u> a better mouse trap with REPUBLIC ELECTRO PAINTLOK SHEETS"

"If we expected the world to beat a path to our door," continues Mr. Coughanor, "we knew every detail of design and material in the Self Sett Trap had to be exactly right. As a result, extensive tests have been conducted which prove design efficiency. And experience has proved Republic Electro Paintlok is the best steel sheet we can buy for economy, long life, and excellent paint-holding qualities. The combination of these factors gives us the best, safest, most foolproof product on the market."

This enthusiasm for Republic Electro Paintlok® is echoed by many other product manufacturers faced with a wide range of forming and application problems. The reason is the chemically treated zinc surface of Republic Electro Paintlok which leaves the mill in prime condition for painting, and won't crack, flake, or peel under any forming operation permitted by the base metal.

These features of Electro Paintlok protect the applied finish of completed products—holding it tightly and restricting corrosion to the point of damage if it should be scratched through.

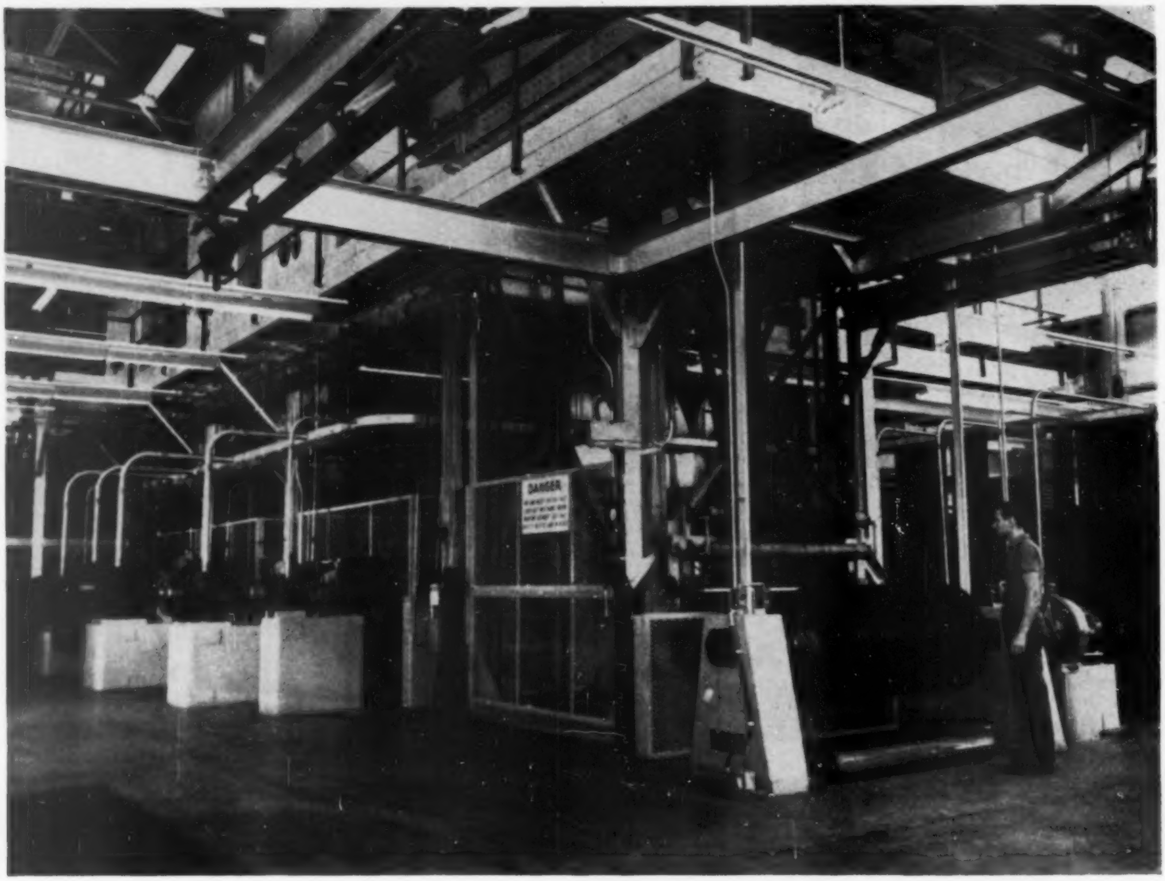
If you want to "build a better mouse trap" in your product field, it will pay you to get all the facts on versatile Republic Electro Paintlok. Contact your Republic representative or mail coupon.



BETTER OVER-ALL PERFORMANCE WAS MADE POSSIBLE through the use of Republic Titanium in the manufacture of these hemispheres by Alloy Products Corporation, Waukesha, Wisconsin. Used for special aeronautical applications, completed spheres provide light weight without impairing safety; strength to contain 2,000 p.s.i.; extreme corrosion resistance to chemically active contents. Beyond providing product advantages, Republic Titanium is easy to draw, pierce, and weld. Little change in fabricating procedure is required as compared with other construction materials. Send coupon for data.

BETTER SERVICE FROM BOLTED ASSEMBLIES subject to impact and vibration can be secured when they are fastened with Republic Nylok® Bolts and Nuts. The resilient nylon pellet imbedded in the body of bolt or nut forces a tight metal-to-metal lock between opposite mating threads. Pellet is unaffected by age or moisture and permits both adjustment and re-use without loss of holding power. Lock is secure even if fastener is not seated. For details, send coupon.

Horsepower for AUTOMATION by Reliance



COST CONTROL begins with MACHINE CONTROL

The difference between a salable product and a pile of expensive scrap is good machine control. Impregnating tire cord with latex, for example, takes controlled stretch.

An automatic line dips, dries, vulcanizes and stretches the cord. The quality of the finished cord is dependent on exacting control at every step. On the sectionalized equipment shown here, precise stretch is maintained by the Reliance V⋆S Drive which powers the line.

The V⋆S controls this stretch automatically by establishing a specified difference in motor speeds between the 5 succeeding sections of the line. The speeds of each of the 5 drive motors are also related to overall line speed, assuring the pre-selected stretch at any speed, including dead stall.

Maintaining drive motor speed differentials is only one of the many regulatory functions of Reliance Drives. For complete details on the control possibilities of a V⋆S Drive, contact your local Reliance Representative, or write today for your copy of "Widening the Horizons of Automation," Bulletin No. A-1555.

L-1596

RELIANCE ELECTRIC AND ENGINEERING CO.

DEPT. 348A, CLEVELAND 17, OHIO

CANADIAN DIVISION: TORONTO, ONTARIO

Sales Offices and Distributors in principal cities

In Washington

• • •

$3.4-Billion in Federal Highway Aid Allocated to States for Fiscal '60

The Bureau of Public Roads this week announced the largest single-year outlay for federal-aid highway construction to be doled out in one chunk. States will receive some $3.4-billion to cover the federal government's share of roadbuilding costs for fiscal 1960, beginning next July 1.

Some $2.5-billion will go for interstate roads, and $900-million for primary, secondary, and urban roads. The federal government foots 90% of the bill for the interstate highways, but splits the cost 50-50 with the states for the other roads.

Money for the interstate roads is being parceled out to the states on a new basis. Instead of using the traditional formula based on such factors as area and population, **the new money is being split on the basis of the estimated cost of a state's uncompleted interstate roads in relation to the cost of completing the nationwide 41,000-mile network.** This means that if the cost of a state's unfinished roads amounts to 10% of the cost of completing the nationwide system, then that state gets 10% of the 1960 interstate highway melon. Money for roads other than interstate highways was allocated under the old formula.

The new interstate apportionment formula was provided for in the original 1956 highway act and will be used until the road system is completed. It pumps more money into the big states that are undertaking to build long stretches of interstate mileage. California, for example, gets $252.8-million in fiscal 1960, while Delaware gets only about $8.7-million.

• • •

National Petroleum Council Faces Closer Government Supervision

Interior Secy. Fred. A. Seaton this week suggested a new set of rules for the National Petroleum Council.

Unlike most other business advisory committees to government agencies, NPC, created 12 years ago, has operated with a minimum of government control. It has had an industry chairman and, in effect, exercised a veto power over the agendas proposed by the Interior Secretary.

Seaton's proposal—negotiated with industry representatives—would allow NPC to keep its industry chairman, but would have him yield much of his duties and authority to a government co-chairman. The government co-chairman would have to O.K. all members appointed to committees, fix the agenda of meetings, and would have authority to end any meeting he thinks is drifting into areas where it doesn't belong.

NPC makes studies on oil and gas production, transportation, storage, and other operations of the petroleum industry as an aid to government defense planning.

The Justice Dept. for years has urged more government supervision of NPC. In particular, it wanted a government chairman to take charge.

Some oil men aren't sure NPC members will accept the new rules. But others say privately: "We'll have to go along; it's the best we can get."

• • •

House Interior Committee O.K.'s Price Subsidies for Metals

The House Interior Committee this week approved a bill to stabilize metals and minerals prices that is similar to one already passed by the Senate. Both versions call for a 150,000-ton copper stockpile designed to hold the price of copper steady at 27½¢ a lb., and price support subsidies for lead and zinc to hold domestic prices at 15½¢ for lead and 13½¢ for zinc. Both bills also call for subsidies to stabilize domestic prices of acid-grade fluorspar at $53 per short ton, and tungsten at $36 per short ton unit.

The legislation has the backing of the Administration.

Major difference between the Senate and House bills is the method of financing the program. **The Senate bill gives the Interior Dept. authority to borrow from the Treasury the $450-million the program is expected to cost over a five-year period. The House bill calls for direct Congressional appropriations.**

There is considerable opposition to the price subsidy program in the House. Even if the House version of the authorization measure wins final approval, domestic producers of metals and minerals still would have to fight again for their money requests at the next session of Congress.

• • •

States Marine Lines, Matson Get Nod As Operators of Atomic Merchant Ship

The States Marine Lines and the Matson Navigation Co. have been tapped by the government to be joint operators of the nation's first nuclear-powered merchant ship, the Savannah. The $31-million vessel is expected to go into service by 1960. Capable of 20 knots, it will carry some 60 passengers and 9,500 tons of cargo. **The Savannah will operate over three years on its initial nuclear fuel load. States Marine will run the ship and Matson will handle passenger bookings.**

The Savannah is being constructed by Sun Shipbuilding & Dry Dock Co. The keel was laid May 22.

Initially, the ship will undergo six to 12 months of tests, then make domestic and international cruises in quasi-commercial operations; later it will go into full commercial service.

Elsewhere on the atomic front, the Bureau of Budget turned down the Maritime Administration on a request to install nuclear power in a government tanker nearing completion. But **Congress has cleared the way for the government to build an atomic-powered icebreaker,** which would cost around $60-million and take three years to build.

BUSINESS ABROAD

Seeking a Place on U.S. Roads

Two Japanese auto makers, stymied in their home market, enter the scramble for U.S. small car market.

Following the lead of West European auto makers, Japan is plunging into the foreign car market here with two entries, Nissan's four-door Datsun (pictures) and Toyota's somewhat larger Toyopet Crown. With over 50 foreign-car makes already on sale here, the Japanese auto industry isn't likely to carve out a big slice of the U.S. market for itself.

• **No Other Course**—The Japanese companies, Nissan Automobile Co. and Toyota Motor Sales Co., feel they have no choice other than making a stab at the small, second-car market here. Unlike West European auto makers, which in some cases can't keep up with local demand, the Japanese face an almost stagnant car market at home. So the first phase of their strategy is relatively simple. They are seeking overseas market outlets.

The U.S. market, of course, is the largest of all and brings dollars. Beyond that, the Japanese realize that despite U.S. resistance to letting in a flood of

JAPAN'S DATSUN, moving down assembly line of Nissan's Yokahama plant, is one of two Japanese cars attempting to crack U. S. market. The other is Toyota's Toyopet.

OLD MACHINES, largely from U. S., are still used. Nissan hopes to get U. S. loan to buy new ones.

HANDWORK on car parts and bodies is a selling point for Nissan in promoting its cars in U. S. market.

imports from Japan, this is about the only car market where a foreign manufacturer can sell without setting up a plant.

• **Ultimate Goal**—The second phase in the auto makers' strategy is a bit more complicated. In effect, it's an effort to make a flanking attack on the Japanese home market through increased sales in the U.S. and other countries.

The fact is that Japanese cars are too high-priced for the domestic market. That's because small sales boost production costs, which in turn keep car prices high relative to the average income level in Japan. The government also slaps a sizable tax on cars.

Japanese figure that by moving into the U.S. and other markets, they can use their idle capacity and, in the long run, expand production to a level where lower unit costs will bring lower retail prices at home.

• **First Step**—As a first step, Nissan this week launched its runabout Datsun in Los Angeles with hopes of selling 1,700 by yearend, mostly on the West Coast. The 37-hp. car is small but heavy, reportedly gets over 40 mi. to the gallon. Nissan is shooting for the market now dominated by Britain's Hillman, France's Renault and Simca, and West Germany's Volkswagen. The price tag, including extras, is $1,849 at port of entry.

At the same time, Toyota this week began advertising its Toyopet Crown, aiming at initial sales of "several hundred" in California. It also plans to bring in a station wagon and Jeep-type vehicle. Priced at $2,187, the Crown will compete against such foreign makes as West Germany's Opel (owned by General Motors) and Borgward and France's Peugeot.

• **The Obstacles**—The Japanese auto makers face many obstacles here. They are latecomers in the U.S. car market. Neither company has a name well known to the public. While sales of imported cars are climbing and may reach 350,000 units this year, Detroit apparently is on the verge of jumping into the small car race with new designs of its own. The Japanese companies also seem to have picked a bad moment for trying to crack the U.S. market. The recession here, though showing signs of improvement, is still having an impact on both customers and auto makers.

In addition, few people in the U.S. wholly believe that Japan can produce an automobile. Statistics, of course, disprove this. In 1957, the Japanese auto industry turned out 182,000 vehicles, including 47,100 passenger cars.

The industry also produces 115,000 two- and three-wheel vehicles annually. And in the bus field alone, according to most recent figures, Japan ranks as the

fourth largest producer of diesel buses in the world.

One proof of the quality of Japan's product is the fact that since the end of World War II, Washington has bought huge numbers of Japanese vehicles for U. S. forces in the Far East and military-aid programs in the area. In the past fiscal year, these orders amounted to more than $32-million.

• **Price Problem**—Yet none of this has cured the unhealthy state of passenger car production. Output is small primarily because the price tags are nearly double the annual salary of a well-paid Japanese. Then, finance companies are almost non-existent. Beyond that, both gas and replacement parts are high-priced. So virtually all the customers for cars turn out to be the government, private companies, and taxi-fleet owners. Nissan sells around 80% of its Datsuns to taxi companies.

To make matters worse, there is no used car market. One Toyota dealer recently had over 1,000 used cars on his hands—equivalent to about half the total monthly production of new cars at Toyota plants.

• **Birth Pains**—All of this stems, to some extent, from the newness of Japan's auto-truck industry.

Take the case of Nissan—officially Nissan Jidosha Kabushiki Kaisha. It started in 1933 as an offshoot of the Nissan zaibatsu, one of the large trade, banking, and manufacturing combines that dominated Japan's prewar industry. The first products were small-sized trucks and special-purpose vehicles.

In 1936, after importing machines from Graham-Paige Motor Co.—some are still in use—Nissan moved toward U. S.-style mass production. During the war, the company concentrated on truck production. Even so, both Nissan and other auto-truck makers emerged from the war with only limited experience. For, until the war, Japan had depended heavily on GM and Ford autos and trucks, locally assembled, to meet demand.

For a time after the war, Nissan's largely undamaged plants operated under the wing of the U. S. Army. While producing for civilian consumption, Nissan ran into serious troubles from left-wing labor unions. Worst of all, it lacked capital.

Just when it seemed to be getting into full swing last year, Nissan had to cut back production in line with Japan's over-all business slowdown. Nissan has a monthly capacity of 10,000 auto-truck units, including output of Britain's Austin under a royalty arrangement. But production now is down to 1,500 units.

• **Trade Peak**—That's why overseas markets look so good. To sell abroad, Nissan, like other producers, is leaning on the government's Ministry of Inter-

national Trade & Industry to help arrange exports and, in some ways, subsidize sales drives in new areas. Under reparations agreements, Nissan and other makes have been sold to Burma, Indonesia, and the Philippines. Nissan recently arranged a swap with Spain—Nissan Jeep-type vehicles in exchange for rice.

The latest deal covers the U.S. market. With 50 cars delivered last week, 75 more en route, and 125 more at dockside near Nissan's Yokohama plant, Wolverton Motors Corp., the West Coast distributor, is lining up imported-car dealers in southern California. In New York, Luby Chevrolet Co. has a sample shipment of Datsuns for the East Coast market.

• **Paradox**—If Nissan aims at lowering car prices at home, it doesn't have much margin to play with. Materials account for an estimated 80% of production costs—and these can't be lowered easily. That leaves it with the problem of replacing an above-average amount of hand labor with more automatic assembly-line methods. Yet, paradoxically, one of the selling points favoring the Datsun is the careful handwork that goes into each car.

BUSINESS ABROAD BRIEFS

The Paris conference of COCOM—the NATO group charged with reviewing East-West trade embargoes—has decided to relax controls on a substantial number of items. New lists probably won't be available until mid-August, but it is reported that at least 40% fewer items are banned. Indications are the group has recommended free exports to the East of copper, sheet steel, small tankers, and electronic equipment.

•

The Commerce Dept.'s Balance of Payments Div. has put out a new statistical summary covering the patterns of U.S. foreign investment over the last 20 years. It is the first official collection of balance of payments figures ever compiled in a single source document.

•

Standard Oil of Indiana's subsidiary, Pan American International Oil Co., wasn't the sole U.S. company to get a concession in the offshore neutral zone between Kuwait and Saudi Arabia. American Independent Oil Co., representing 10 U.S. independents plus Getty Oil, got two concessions. Offshore rights were also granted to two Japanese groups. The Kuwait half was given on the basis of a 57-43 profits split, not only from crude but from refining—which is to start locally. The Saudi concession was on 56-44 terms, including refining.

In the Markets

• • •

Stocks Head In for a Breather, But Investor Demand Holds High

The stock market this week showed signs of stopping to catch its breath. In view of the sharp runup that has lifted the Dow-Jones average above 500, a pause is not surprising. What is surprising is that it has not happened before.

Most technicians are now expecting a technical reaction. But few see any danger of a sizable or prolonged decline. In fact, many professionals feel that any drop will be a signal for those who have been holding cash in hopes of buying at bargain prices. As one broker put it: "A lot of my customers who think they missed the boat are just itching to get in."

The widespread demand for stocks by investors may mean a new all-time peak. Certainly, the stock market is high in relation to the traditional yardsticks—price-earnings ratios and dividend yields. At the same time, it is not unusual for strong demand to push prices beyond what the yardsticks would indicate is justified, at least in the short run.

So far, there's been no wilting in demand. **On the contrary, it appears that more and more investors are anxious to buy.** But it is probable that any further rise will be like the runup to date—a big boost in specific stocks and stock groups, while the rest of the market lags behind.

One stock group that showed little action on bullish news this week was the steels. The price increase was expected, and steel stocks have already moved up considerably. But a number of analysts think steels should go higher.

There's also a general feeling that the defensive issues that have done so well since last October will now fade out as investor favorites.

• • •

European Markets Ignore Wall Street, Stay Sluggish for Fear of a Decline

Europe's stock markets show few signs of joining Wall Street's bull rush. There's been some firming in prices since the Middle East crisis broke out. But, in general, investors in markets abroad are still vulnerable to the fears they had last year, when foreign stock prices dropped much more sharply than U.S. stocks.

Most foreign stocks are being held down by prospects of a decline in business abroad. Few European investors are convinced that there will be a dramatic recovery in the U.S., and they are worried that the influence of the U.S. recession will shortly be felt in their own economies.

But a sizable minority of European investors is taking an opposite tack. They got out of U.S. stocks last year, now are returning.

MORE NEWS ABOUT THE MARKETS ON:

- **P. 73 Bonds weaken despite Federal Reserve's support.**
- **P. 73 SEC blacklists Canadian Javelin stock.**

Here's a rundown on how foreign markets are doing:

British stock prices have climbed only slightly from last year's lows, mainly because investors seem to fear a contraction in business.

French stock prices are floundering because of the country's unstable financial picture. De Gaulle's influence has stopped the decline, but despite continued good business, there's little optimism about the chances of a recovery in stocks.

Belgian and **Dutch** issues are marking time. Business is still good in both countries, but the outlook is clouded by the possibility of a downturn.

German stock prices have moved up since last fall, an exception to the prevailing bearishness in Europe.

• • •

Borrowing Costs to Be Pushed Up By Shrinkage in Available Funds

Borrowing costs will be going up in the second half of 1958, according to R. W. Pressprich & Co.'s latest study on the capital market, released this week. The rise in money rates will be caused by **a shift from a small surplus of investable funds to a small deficiency.**

Pressprich estimates that demand for long-term capital in the second half will hit $16.4-billion—slightly less than the $18.2-billion chalked up for the first half. But available funds will decline sharply from $18.2-billion to only $13.9-billion. This gap, says Pressprich, may mean the difference between "happiness" and "misery" to the capital market.

The big demand by corporations in the first half—some $5.8-billion—is not expected to continue. It's estimated that corporations will be in the market for only $4.3-billion during the balance of the year.

The Pressprich study also remarks that a further reduction in reserve requirements is "a possibility." It notes that the Treasury is entering a period of unusually heavy seasonal deficits—which will have to be met through "inflationary increases of commercial bank reserves."

• • •

Trading in Municipals Takes Heart From Reduction in Issue Backlog

The municipal bond market, depressed by the record-breaking total of new issues marketed during the first half of 1958, was stronger this week.

Municipal dealers point to the fact that the visible supply of municipals—issues scheduled for sale in the next 30 days—has declined from $650-million in early May to $250-million. They say the backlog of issues that built up during the long period of tight money has been worked off; now a more "normal" demand is anticipated.

THE MARKETS PATTERN

Governments Need Sturdy Prop

"WHEN A DOCTOR finds a patient is bleeding to death, he doesn't pat him on the hand and tell him that if worst comes to worst he may get a transfusion—he gives him a transfusion immediately. And that's what should be happening in bonds."

This was the bitter comment of one government bond dealer this week after long-term Treasury issues tumbled to new lows for the year. Last week, following the Federal Reserve's decision that it would support bond prices, the market appeared to rally (BW—Jul.26'58, p23). But despite support action by the money managers, bond prices soon resumed their toboggan-like slide, and this has led to revival of the old charge that the Fed is "too little and too late."

If the decline continues, it could lead to panic throughout the capital market. There's grave danger that potential borrowers might stay away from the market and potential investors might sit on their hands. Either would be a drag on the recovery in business.

This is, of course, the main reason the Fed announced it would support the market. But, so far, it has depended more on the psychological reaction of its announcement than on actual support operations. True, it bought more than $1-billion of the Treasury's new short-term 1⅝% certificates, but this merely helped make the new financing less of a flop than it would have been.

The Fed's buying of long-term bonds, whose prices have been hit the hardest, has been limited. As a result, long-term Treasuries sold this week near the peak yields available during last year's tight money squeeze.

NOW THE MARKET appears even more jittery than before the Fed's announcement of support. That's because investors have been burned so badly that psychological pep-talks can't restore their confidence. Yet that appears to be the Fed's present prescription.

There's considerable resemblance between the Fed's dragging of its feet now and its psychological reversal of tight money last November (BW—Nov.23'57,p48). Then the money managers made a dramatic reduction in the discount rate but were slow to supply reserves to the nation's banking system. Bond prices shot up because investors—and speculators—were confident easy money was on the way.

The Fed's psychological tactics worked then because investor sentiment gave it an assist. But now, investors are not responding.

Such a bedside technique might have worked when the decline first set in. But at that time, the Fed was determined to maintain its "bills only" policy—dealing only in 91-day Treasury bills in supplying or absorbing reserves. When the decline turned into the worst rout the bond market has ever experienced, the Treasury stepped in and bought its own securities for premature retirement—but this was basically a holding operation.

Once market sentiment collapsed, the only remedy was aggressive Fed action. But even though the money managers finally recognized the need of coming to the rescue, they fear that strong support of long-term bonds will result in an end to the "free" market in which supply and demand determine prices.

MANY AUTHORITIES, including Allan Sproul, former president of New York's Federal Reserve Bank, have questioned the Fed's techniques. Sproul believes in trading in bills except in critical periods. But in such instances, he feels that a central bank must act boldly.

Sproul's notion is that half-measures often are more costly in the long run. When confidence is deteriorated, as it is right now, shock treatment appears warranted.

The Fed has not yet come to accept the Sproul view. But in breaking away from "bills only," it has taken the first belated step. It must now face the second step—giving the market a big enough transfusion to end the decline. For if it is unable to achieve stability, it may find itself forced to the one state of affairs no one wants—a pegged market.

Javelin Spiked

SEC halts U. S. trading in Canadian mining stock. The charges: Extravagant promotion, no registration.

The checkered records of Canadian Javelin, Ltd., a Canadian mining company whose stock is mostly in the hands of U. S. investors, were slapped with a fresh black mark last week when the Securities & Exchange Commission barred its stock from over-the-counter trading throughout the U. S.

Officially, the SEC said simply that it has information that the stock is being illegally distributed. And that was all it needed to say. For, when it blacklists an over-the-counter foreign stock, the SEC needs no formal court order or proof of the kind required to suspend trading in a listed U. S. security.

- **The Charges**—But privately, Edward C. Jaegerman, SEC trial attorney, lists a number of counts against Javelin, which holds rights to valuable iron ore properties in Labrador and has interests in a bundle of other resources.

He says that John C. Doyle, Javelin's president and chief stockholder, has never complied with laws requiring that any company selling stock in the U. S. must give its shareholders and potential investors specific information about its operations.

He charges, too, that Javelin has sold about 5-million shares without registration. He points out that a foreign security doesn't have to be registered here if initially the stock is sold outside the U. S.—so long as the company or its controlling interests don't influence or take part in any legitimate secondary market that develops later in the U. S.

Several Canadian issues, says Jaegerman, have been dumped on the U. S. market by underwriters, not legitimate purchasers. This may have been the case with Javelin's stock, which, he adds, was sold to U. S. investors through high-pressure Canadian "bucket shops."

And finally, he says the stock has been marketed here on the basis of extravagant – and questionable – claims about its prospects.

This is not the first time that Javelin has been under a cloud. In 1953, the stock was delisted from trading on the Canadian Stock Exchange for failure to file required financial information. Doyle insists this was a "put-up" job, aimed at breaking Javelin's hold on its iron ore properties.

- **Steep Drop**—There's no doubt the SEC's decision struck at the price of

Javelin's stock. This week it sold in Canada as low as $6 a share—its low for the year and less than half its selling price before the SEC action.

This could be a temporary reaction to the blacklisting, for though the stock has had its ups and downs, its reputation as a glamor issue is pretty well founded. It may even be that Javelin's altercations with the SEC have whetted some speculative appetites.

• **Protests**—Doyle is not submitting quietly to the blacklisting. This week he told BUSINESS WEEK that he has met SEC attorneys and offered them whatever information they wanted about Javelin—although this, he says, wasn't necessary for a Canadian company. The SEC says, however, that Doyle has never filed a registration statement anywhere.

Doyle says that neither he nor Javelin tried to bull the stock through high-pressure tactics. In fact, he says that he warned stockholders against unnamed Canadian brokers who were touting the issue.

But Doyle himself has in the past ignored details of his company's operations and focused instead on the prospect of big profits. He has bombarded stockholders with these predictions, occasionally punctuating them with warnings against anonymous rumor-mongers.

• **Ore Holdings**—Javelin's biggest asset is a huge parcel of bleak Labrador real estate that, Doyle says, contains well in excess of 1-billion tons of proven iron ore. He claims it is the second biggest iron ore reserve in the world.

Nor is this claim only according to Doyle. Last year, he concluded an agreement with Cleveland's Pickands Mather & Co., a major iron ore producer, to develop the property (BW—Jun.15'57,p54). Pickands' willingness to enter into a deal with Doyle sent the price of Javelin to over $30 a share. Pickands' engineers, who have been investigating Javelin's properties, confirm that there is at least as much ore as Doyle claims.

Javelin has more than this. With 39% of the stock of Newfoundland & Labrador Corp., it has a share in rich mineral concessions covering tracts of land in both Newfoundland and Labrador. Doyle picked up the Nalco stock for $1.2-million, which mining men say is a "steal." In fact, the low price paid for the stock and the close friendship between Doyle and Newfoundland's Premier Joseph Smallwood, led to an unsuccessful fight to block the deal before the Newfoundland parliament.

• **How to Exploit**—There is no doubt that Javelin has potentially valuable property. But it will take a good deal of money to exploit it. There is some evidence that Doyle has tended to ignore

this fact in his public statements. But Doyle says that the exaggerated claims, and inaccurate figures on the amount needed for exploitation, come from other sources.

Doyle, who is 44, started out as a coal salesman in this country, became a flamboyant and successful promoter in Canada. Some observers think he may be anxious to sell out now that Javelin is on the verge of development. He admits that talks have been held with Pickands Mather about selling his interest in Javelin to them. So far, says Pickands, "no definite conclusions have been reached."

Since he is more a promoter than a mining man, it is doubtful that Doyle could develop his property without Pickands or some other big and experienced outfit. It is an open secret, for instance, that some large steel producers, who would be Javelin's natural market and the best alternative source of development capital, are keeping aloof because of their dislike for Doyle and his methods.

• **Selling Out?**—There is some opposition to Doyle among Javelin's shareholders. Doyle refuses to say just how much Javelin stock he holds, although he admits that he does not have an absolute majority.

But it is clear that as the largest single stockholder, Doyle has been hurt most by the SEC action. And if he intends selling out, the drop in the stock price and the suspension have weakened his bargaining position.

Doyle's critics think he may actually have double-crossed himself. They say that though Javelin is a good property, Doyle had a tendency to make it sound even better—to boost the price at which he would sell out. If so, the move boomeranged.

While Doyle does not deny that he may sell, he emphatically says he was not the one making false statements. He says, "We are taking every step possible to meet any valid SEC specifications and to fulfill their requirements."

• **SEC's Moves**—The SEC is carefully checking the methods by which the stock was supplied to U.S. investors. According to Jaegerman, telephone calls from "boiler rooms" in Montreal to small investors all over the U.S. were the chief means of selling the stock. He also alleges that some of the stock came from European accounts—mainly Swiss and Lichtenstein—which do not reveal the names of the owners.

Doyle says that he has not sold any Javelin stock during the past year.

It may be some time before the SEC decides just what it should do. In fact, it moved in on the case after only a week of investigation as part of a new policy of halting trading in questionable securities as soon as it can. END

In Labor

• • •

Washington Development

Unions are carefully studying the latest report of the Committee for Economic Development (BW–Jul.26'58, p19). Generally, they have regarded CED as objective, despite its business background. But, **finger-pointing at labor in the study, Defense Against Inflation, is viewed by unions as another—and significant—attack on their freedom from anti-monopoly laws.**

The CED noted that "single unions covering an entire industry or market are common," and urged a study **to find out whether laws permit unions to exercise "a degree of power which is not in the public interest,"** particularly affecting wage rates and inflation.

Two CED members dissented.

The McClellan committee wound up hearings on Chicago's restaurant business with charges that some union officials and employers "perverted . . . honest and valid concepts of trade unionism." As AFL-CIO watched, the Hotel & Restaurant Workers pledged a "thorough" cleanup . . . **Senate probers are now looking into union affairs in Detroit. Teamsters Pres. James R. Hoffa will be a witness next week;** he'll be asked about an Indiana land scandal, a Florida real estate venture, and alleged relations with the underworld.

The National Council for Industrial Peace is counted on by labor to mobilize more non-labor support against state right-to-work proposals. **A "public" body, it's headed by two of labor's warmest friends, Mrs. Eleanor Roosevelt and former Sen. Herbert Lehman.** Reportedly, labor funds are available to help NCIP.

A political manual, "The Labor Bosses—America's Third Party," issued by the staff of the Senate Republican Policy Committee, is interpreted in Washington as a cue to party plans to couple labor and the Democrats in a slashing political attack this fall. The manual says (1) "the most highly organized and most adequately financed political action operation today is that of the labor movement," and (2) "the hold of the labor bosses on the Democratic Party has, for all practical purposes, rendered responsible Democratic leadership virtually impotent." **A number of liberal GOP candidates in strong labor areas are unhappy; they say the committee's conservative wing went too far.**

• • •

Inside the Unions

Merger talks are in the air between the Brotherhood of Railroad Trainmen (200,000 members) and the Order of Railway Conductors & Brakemen (50,000), and between the Oil, Chemical & Atomic Workers (183,000) and the International Chemical Workers (85,000) . . . **AFL and CIO state bodies are now merged in Wisconsin, the 39th state,** and agreements on uniting are reported in two others, California and Rhode Island.

AFL-CIO unions have failed again to win representation rights at Mesta Machine Co.'s West Homestead (Pa.) works. Foundry employees rejected the Molders and the Steelworkers; of 556 votes, 353 were for no union.

AFL-CIO's executive council will hear State Secy. Dulles appraise Washington's foreign policy and the international situation during its summer conference in the Poconos this month. In the spring, the council heard former State Secy. Dean Acheson's Democratic views . . . **The federation endorsed the Administration's decision to send troops into Lebanon as "necessary."**

The Teamsters-sponsored Conference for Transportation Unity gained the support of Harry Bridges and the West Coast International Longshoremen's & Warehousemen's Union last week. Otherwise, the CTU proposal ambitiously advanced by James R. Hoffa continued to get a cool reception in labor. If anything, **Bridges' acceptance made AFL-CIO unionists even warier.** ILWU is an "outlaw" union in the federation's eyes.

• • •

At Bargaining Tables

United Auto Workers strategy in negotiations with General Motors, Ford, and Chrysler should be a little clearer next week. UAW's executive board will meet on Friday and the union's GM, Ford, and Chrysler councils will convene the next day. **If UAW plans a strike before 1959 models begin rolling, the decision is about to be made.** The board will set a bargaining deadline after which—if no contract is signed—UAW will strike one of the Big Three.

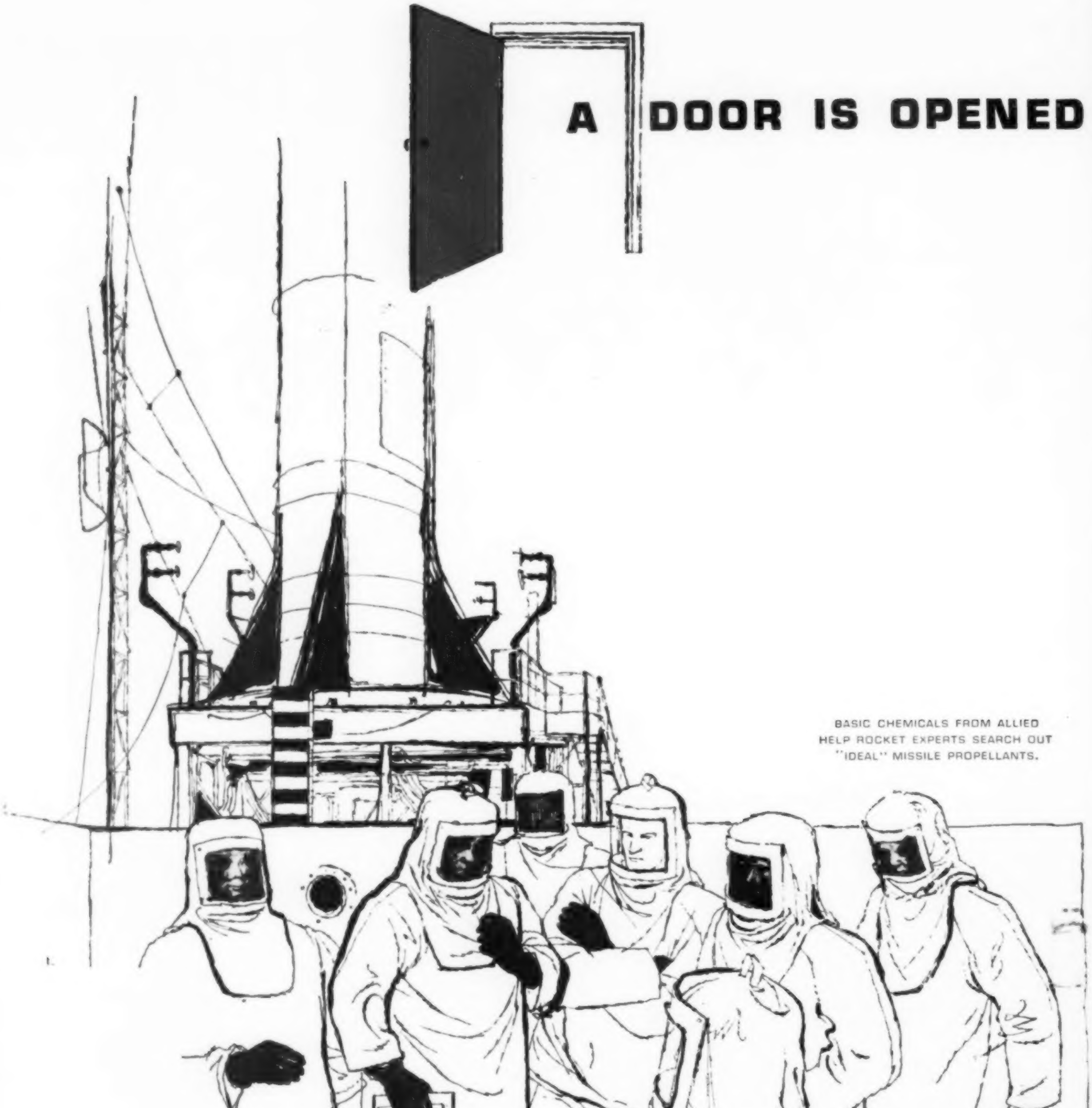
Meanwhile, GM's announcement that it has signed contracts with 12 unions is a departure from past policy—and a significant one. In other years, GM delayed signing with others while bargaining with UAW, to avoid antagonizing the key union. Now, that doesn't seem to matter.

The International Union of Electrical Workers, which is bargaining with GM on much the same demands as those first advanced by UAW, is threatening to strike GM. **Although there is speculation over the possibility that Walter Reuther's auto union might be encouraging IUE to walk out—to tie up GM with a small striking force, easy to sustain with strike funds—nobody is taking the threat seriously.**

A new contract that calls for a pay hike but less take-home earnings has been approved by West Coast longshoremen—but Harry Bridges had to use all the persuasive arguments he could muster. The pact gives a 10¢ raise, but cuts the working day from nine to eight hours. Since the Bridges union has a six-hour day at straight time, the cut was an hour's overtime pay.

In other settlements: A master contract between the Machinists and 11 shops in Chicago's Tool & Die Institute boosted pay 15¢ an hour now, 10¢ more in June of 1959 and 1960 . . . The Boilermakers and New York Shipbuilding Co., in Camden, N. J., signed for 17¢ and another 10¢ in a year; the same union and others in the Pacific Coast Metal Trades Council signed with West Coast shipyards for 13¢ an hour . . . Locomotive firemen elected to take a 7¢ increase due Nov. 1 in wages instead of for a carrier-union insurance plan . . . Cap makers settled for a 5% raise and an employer financed cap industry promotion fund.

A DOOR IS OPENED



BASIC CHEMICALS FROM ALLIED
HELP ROCKET EXPERTS SEARCH OUT
"IDEAL" MISSILE PROPELLANTS.

Allied Chemical

BASIC TO AMERICA'S PROGRESS

DIVISIONS: BARRETT · GENERAL CHEMICAL · NATIONAL ANILINE
NITROGEN · SEMET-SOLVAY · SOLVAY PROCESS · INTERNATIONAL

BY ALLIED CHEMICAL TO BASIC MATERIALS FOR THE SPACE AGE

Chemistry—that's where we enter the picture in atomic energy and missiles. We don't pretend to be experts in other phases of these complex fields, but for some time, chemistry and things chemical have been our sole business. And now we are applying this experience to the chemical side of the missile and atomic energy program.

For atomic energy, there's a wide range of chemicals from Allied. Our General Chemical Division will be the first company to produce *uranium hexafluoride* for the Atomic Energy Commission in privately owned and operated facilities. General Chemical also makes *sulfuric* and *nitric acids*, used for refining uranium and plutonium . . . *elemental fluorine*, now transportable in liquid form . . . *aluminum nitrate*, used in the separation of fission products from plutonium and uranium.

For missiles, 30 or more Allied Chemical products are now under evaluation as the nation searches out "ideal" missile propellants. One interesting possibility from our Nitrogen Division is *nitrogen tetroxide*. It's strikingly superior to liquid oxygen in that it is easier to handle—requires no refrigeration—reacts spontaneously with many fuels, and can be instantly ready for firing. Another possibility from General Chemical Division: *fluorine* and the *halogen fluorides*—among the most powerful oxidizers.

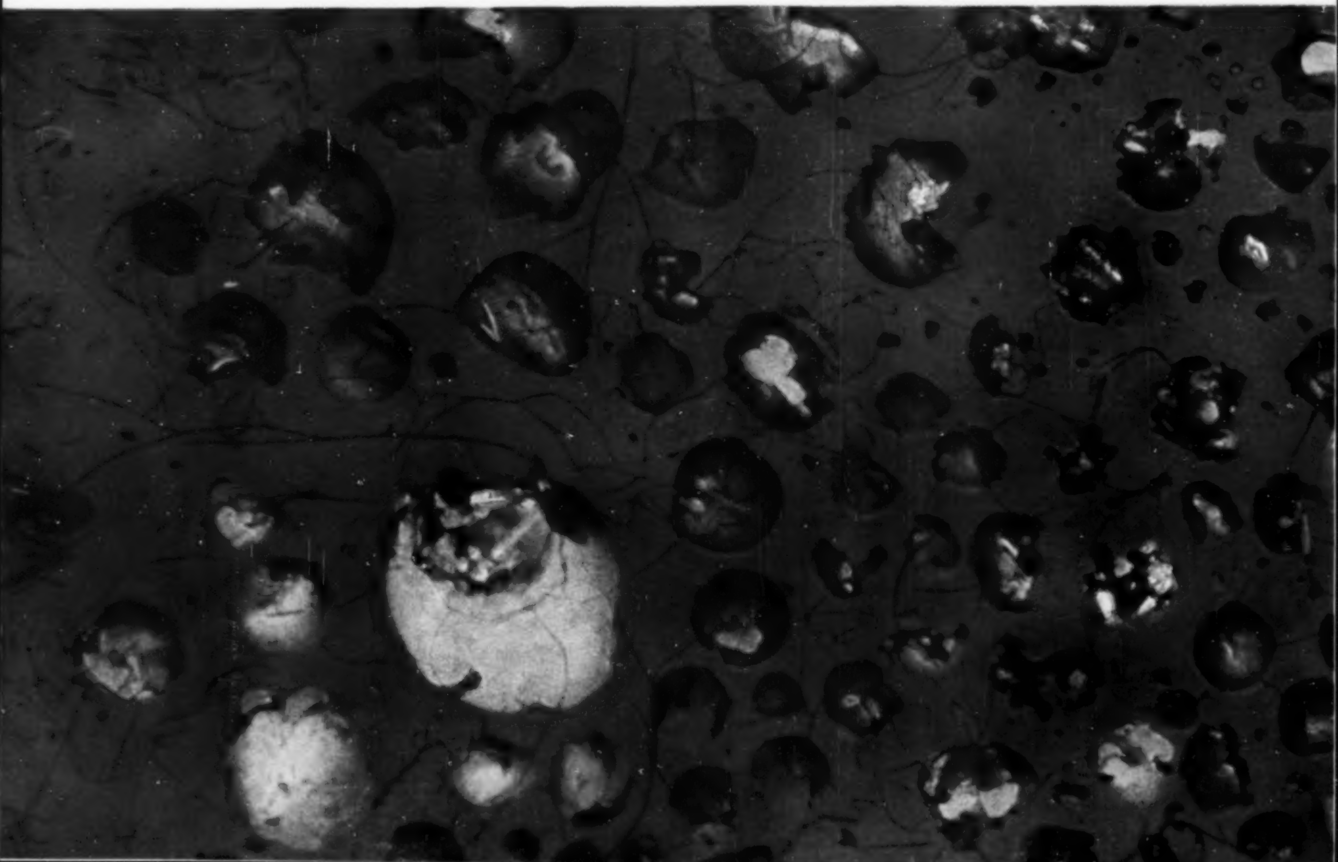
Basic chemicals play just as important roles as do our more glamorous products. Solvay Process Division, for example, is a leading producer of *chlorine* (used in the refining or recovery of titanium and other rare metals) and *caustic potash* (used in the recovery of spent uranium). *Hydrogen peroxide*, hardly a new product, is a widely used workhorse propellant, and has been an oxidizer in most missiles since the V-2. And Mutual brand *chromic acid* from Solvay is used in the chrome-plating of precision parts for aircraft and missiles.

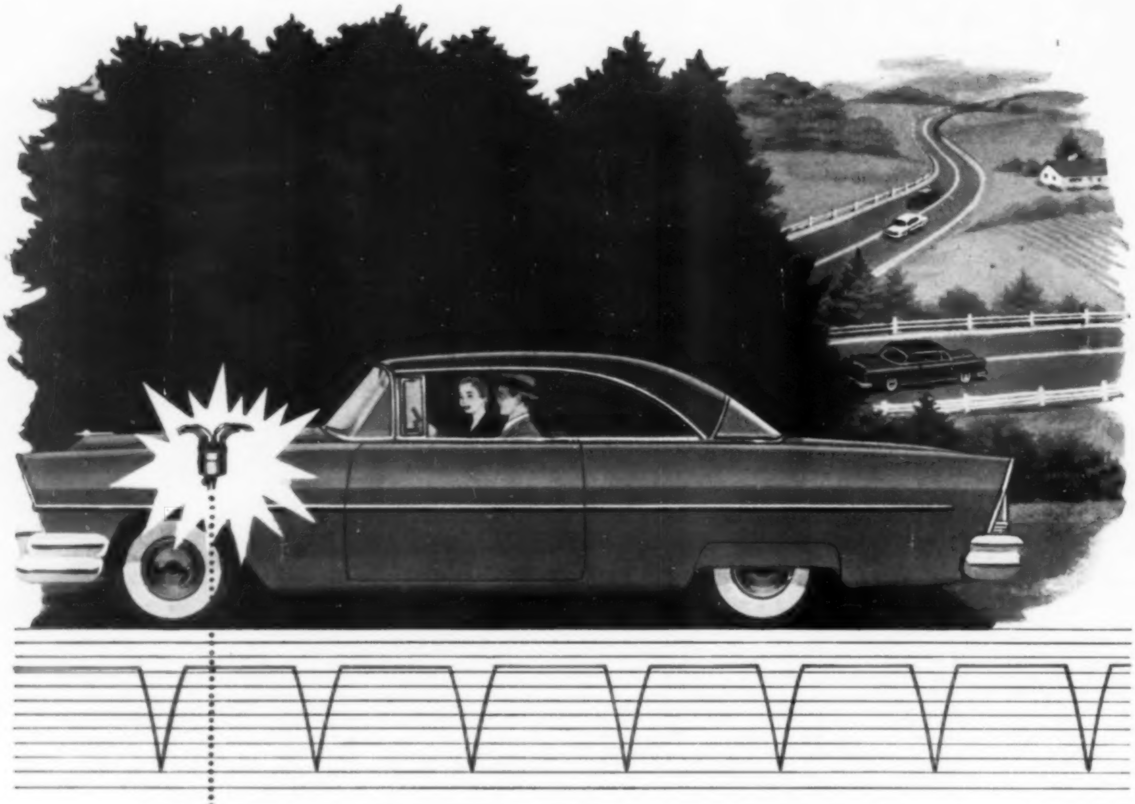
The same imaginative development methods and practical production techniques that we have put into work in these "Space Age" programs, we also put to work for businessmen like yourself.

Perhaps we can open a few doors to profitable new progress in chemicals for *your* business. Why not write Dept. B-88, Allied Chemical Corporation, 61 Broadway, New York 6, N. Y.

Mutual is an Allied Chemical trademark.

MICROPHOTOGRAPH OF ACTUAL CHEMICAL REACTION OCCURRING IN EXPERIMENTS WITH ROCKET FUEL.





12,000 'Pulse Beats' Per Mile

100 times a second as you drive, tiny but tough Mallory tungsten contact points must "make and break" to control the flow of high-voltage current to your spark plugs.

How long has it been since you had trouble with the distributor points in your car? Probably a good many thousand miles. Yet every mile you drive, those little contacts meet and separate 12,000 times as they work to help provide the clean, "fat" sparks vital to smooth, powerful engine performance.

The long, trouble-free service of the Mallory tungsten contacts so widely used in automobile ignition systems is the result of more than 30 years' experience in electrical contact design and metallurgy.

They are "cousins" of other Mallory contacts that have an important place in all kinds of electrical equipment—from the toaster in your kitchen to the giant circuit breakers in the powerhouse. To meet the diverse requirements of such equipment, Mallory has developed many special alloys and powder metal compositions.

Mallory's unique metallurgical skills have also set standards of quality and uniformity in resistance welding materials and techniques . . . as well as in the production of high density metals for shielding radioactive substances and for high-speed gyroscope rotors.

Mallory activities and achievements in specialized metallurgy are paralleled in two other important areas—electronics and electrochemistry. Leading manufacturers in these fields count on Mallory precision components to improve their product performance . . . without increasing their costs.

MALLORY

SERVING INDUSTRY WITH THESE PRODUCTS:

Resistors, Switches, Tuning Devices, Vibrators

Capacitors, Mercury and Zinc-Carbon Batteries

Contacts, Special Metals, Welding Materials

P. R. MALLORY & CO. Inc., INDIANAPOLIS 6, INDIANA

PERSONAL BUSINESS

A BUSINESS WEEK SERVICE

Making a movie on your vacation this year? There's some new equipment on the market that makes amateur motion picture filming almost foolproof—easier than taking "stills."

An 8-mm. camera is the beginner's best buy, experts say. Compared with bigger sizes (such as 16-mm.) the equipment is compact, lightweight, and simple to handle. **In addition, the film can be bought at the corner drugstore.**

Your best bet in 8-mm. cameras is one of the new models featuring the three-lens turret and built-in automatic exposure control (by leading manufacturers, for around $150).

Actually, these cameras have just one basic lens, usually with a maximum aperture of f1.9, which allows considerable latitude in filming under adverse light conditions. The two other lenses are auxiliaries that snap into place over the basic lens and convert it to either **"wide angle"** (for sweeping views), or **"telephoto"** (to bring distant action close up).

No focusing is necessary with this lens setup—everything from a few feet to infinity will appear in sharp outline.

The built-in automatic "exposure control" is one of the more ingenious devices added to the amateur movie camera since 8-mm. came out in 1936. A photoelectric cell "reads" the amount of available light and automatically opens or closes the lens to give you constant, correct exposure.

With 8-mm., you'll probably want to shoot in color. That means using Kodak's Kodachrome—the only 8-mm. color film on the market. Kine-O-Lux is the only company that still sells 8-mm. in black and white.

There are two types of Kodachrome—one for outdoors, the other for use with artificial lighting. To simplify matters, it's a good idea to use the latter type (Kodachrome A) for both indoor and outdoor work. To do this, you use a **"conversion filter"**—a built-in feature in newer model cameras.

The 8-mm. film roll comes in double width, 25 ft. long. You shoot half the roll, turn it over, then shoot the remaining half. When the film is processed, it is split lengthwise, and one end is spliced to the other. **This means your entire 50 ft. of shooting comes out as one continuous reel—or better than four minutes of screen time.** You should average around 30 scenes per roll of film.

There's a lot to the art of good shooting, of course. To simplify greatly, here are four major rules:

- **Shoot action.** About the commonest fault of the novice is to buy an expensive movie outfit—then shoot "stills."
- **Tell a story with your camera.** You don't need an involved scenario; but a little pre-planning of sequences will add a great deal of interest.
- **Vary your shots.** Usually, start with a long shot to establish locale. Then move in for medium-distance shots, which will make up the bulk of your filming. **Use close-ups sparingly—for special emphasis.** Individual scenes generally should run five to 10 seconds, depending on action and tempo. **Close-ups should be limited to around three or four seconds.**
- **Take special care with sweeping landscapes.** Avoid the amateur's habit of "panning" with the camera to show a wide sweep. Use instead a series of brief long-shots.

BUSINESS WEEK
AUG. 2, 1958

Editing your finished film may take a little time, but it's well worth the result. Splicing is simplified by using a "dry splice" outfit ($5 to $10), which requires little more than just cutting the film and retaping. **A complete editing kit runs around $50.**

One more warning: **Don't try to get along with an inexpensive projector. Good ones ($130 to $200) have high-wattage lamps, usually 500 watts, and strong blower-type cooling systems for safety.** Be sure your projector will take large reels, 200 to 400 ft., and has a variable speed control. Newest models on the market feature a wide-angle lens, which gives a much larger image than older types, without greater projection distance.

For a more detailed look at this hobby, you may want to see a new book, Story-Telling Home Movies, by Leo Salkin (McGraw-Hill, $4.95).

—•—

Travel to the Middle East is being discouraged.

The State Dept. advises against such trips, particularly to Lebanon and Iraq—except for "imperative" reasons. There has been at least one large tourist cancellation. Cunard has dropped summer Mediterranean cruises on its liner Caronia.

As to European travel in general, tourist services in New York, London, Paris, Brussels, and Bonn say that **the cold war situation has "disturbed things very little."** Americans are not canceling well-laid travel plans. The only notable drop reported: a 10% rate in cancellations of trips to Russia.

Despite international tensions, **Brussels Worlds Fair officials expect 350,000 U. S. visitors by closing day, Oct. 19.**

—•—

As an executive, you needn't think you're more vulnerable to high blood pressure and heart disease than people in less responsible jobs, according to a study reported in the Journal of the American Medical Assn. The health of more than 1,000 executives and 1,000 non-executives of comparable age was compared with regard to the incidence of hypertension and heart diseases. **The conclusion: no job relationship.**

Some of the recent emphasis on the bad effect of executive life on the vascular system may be based more on knowledge of the exceptions rather than the rule, says the report. Due to his training, the average executive probably learns how much occupational stress he can stand.

—•—

Manners and Modes: Modern Magellans from the U. S., usually middle-aged, not yet retired, and successful, spend between $2,000 and $5,000 or more each for their round-the-world trips, reports Pan-American World Airways. . . . **Children can have fun with a new transistor radio—a little larger than a king-size cigarette package—with earphones and antenna (Bell Products Co., St. Louis, Mo., $7.95).** . . . You can combine indoor listening with outdoor living with an Audiolier, weatherproof garden speaker for a hi-fi set, radio, or record player (Shalda Mfg. Co., Burbank, Calif., $39.95 or $42.95 with base attached). . . . **The 39th edition of The Handbook of Private Schools** (Porter Sargent, Boston, $10) lists leading private schools in 28 foreign countries in addition to those in the U. S. . . . Capital Airlines now offers Dictaphone service on its new "VIP" flights.

In Marketing

• • •

Sales of Home Laundry Gear Slip, But GE Reports Warmth in Freezers

Factory sales of home laundry equipment were off 13% during the first six months of 1958 compared to the 1957 period, according to figures from the American Home Laundry Manufacturers Assn. Total unit sales in the first half of this year were 2,028,989, against 2,321,667 in 1957.

AHLMA noted, however, that June shipments were up more than seasonally and topped June, 1957, by 1%. All of the gain over a year ago was attributable to sales of gas and electric dryers, which were ahead 14%. Total sales for all types of washers and dryers in June were 13% ahead of the May figure.

Meantime, General Electric's Appliance Park in Louisville reported an upturn in sales, notably of food freezers. As a result, "several hundred" employees will be added after the two-week vacation shutdown Aug. 11-22.

• • •

IBM Tailors Data Equipment To Small Businessman's Purse

As part of its Project Spark (BW–Jul.12'58,p47), International Business Machines Corp.'s Data Processing Div. is going after the small business market. It is introducing a re-engineered line of basic accounting and punch card equipment renting for as little as $270 a month.

The new marketing program is aimed at getting business from companies that up to the present couldn't afford—and didn't need—IBM's large-capacity systems.

• • •

Dayton Promotes a Sales Center For Deals With Its Biggest Buyers

The Chamber of Commerce in Dayton, Ohio, is actively supporting plans for a 4,000-sq.-ft. industrial sales display and training center on a 40-acre site four miles north of the city.

The idea is to provide temporary and permanent space for lease to industrial concerns doing business with two major buyers in the area—the Air Force procurement center at Wright Field and General Motors. Koder M. Collison, manager of the chamber's industrial and business expansion department, estimates that on any given day there are at least 400 people in Dayton trying to sell to these two customers alone.

Tentatively included in the still unfinanced plans are office and sales training space, a sales library, plus a motel, restaurant, and cocktail lounge.

Collison says the project is the reverse of a scheme used by the armed forces in World War II. Then, traveling exhibits were taken from city to city to show manufacturers what was needed and to find out who could make what. Dayton, he says, is ideal for the purpose because of the proximity of such big industrial centers as Cincinnati, Columbus, Indianapolis, and Toledo.

MORE NEWS ABOUT MARKETING ON:

• P. 87 The hard sell—U.S. style—catches up with Canadian cigarettes.

• • •

Declining U. S. Thirst for Beer Sends Brewers' Production Down

The Brewers Almanac for 1958, officially released this week, spells out in detail what happened to malt beverages last year. Like figures released a few weeks ago by Research Co. of America, the U. S. Brewers Foundation's Almanac confirms that industry pointed down in 1957.

Over-all production of 89.5-million bbl. was down from 1956's 90.3-million bbl. **Per capita consumption shrank from 15.7 gal. to 15.1 gal. for the calendar year. Ten years ago, per capita consumption was 18.4 gal.**

New York State beat out Wisconsin by some 200,000 bbl. to take the No. 1 production spot in calendar 1957.

Packaged sales moved farther ahead; they made up 79.4% of all sales against 78.9% in 1956. And beer in cans climbed to 36.8% of packaged sales from 35.6% the year before.

• • •

FM Radio's Brow Gets Higher

Special audiences are beginning to get a break on FM radio—and their break may prove a break for FM.

Columbia Broadcasting System has started separate programs over its Chicago station, WBBM-FM, for audiences who want good music. And this week, Westinghouse Broadcasting starts a separate program of classical music on its new Cleveland station, KYW-FM. Westinghouse plans to add theater and book reviews and a variety of courses—foreign language, music appreciation, and the like.

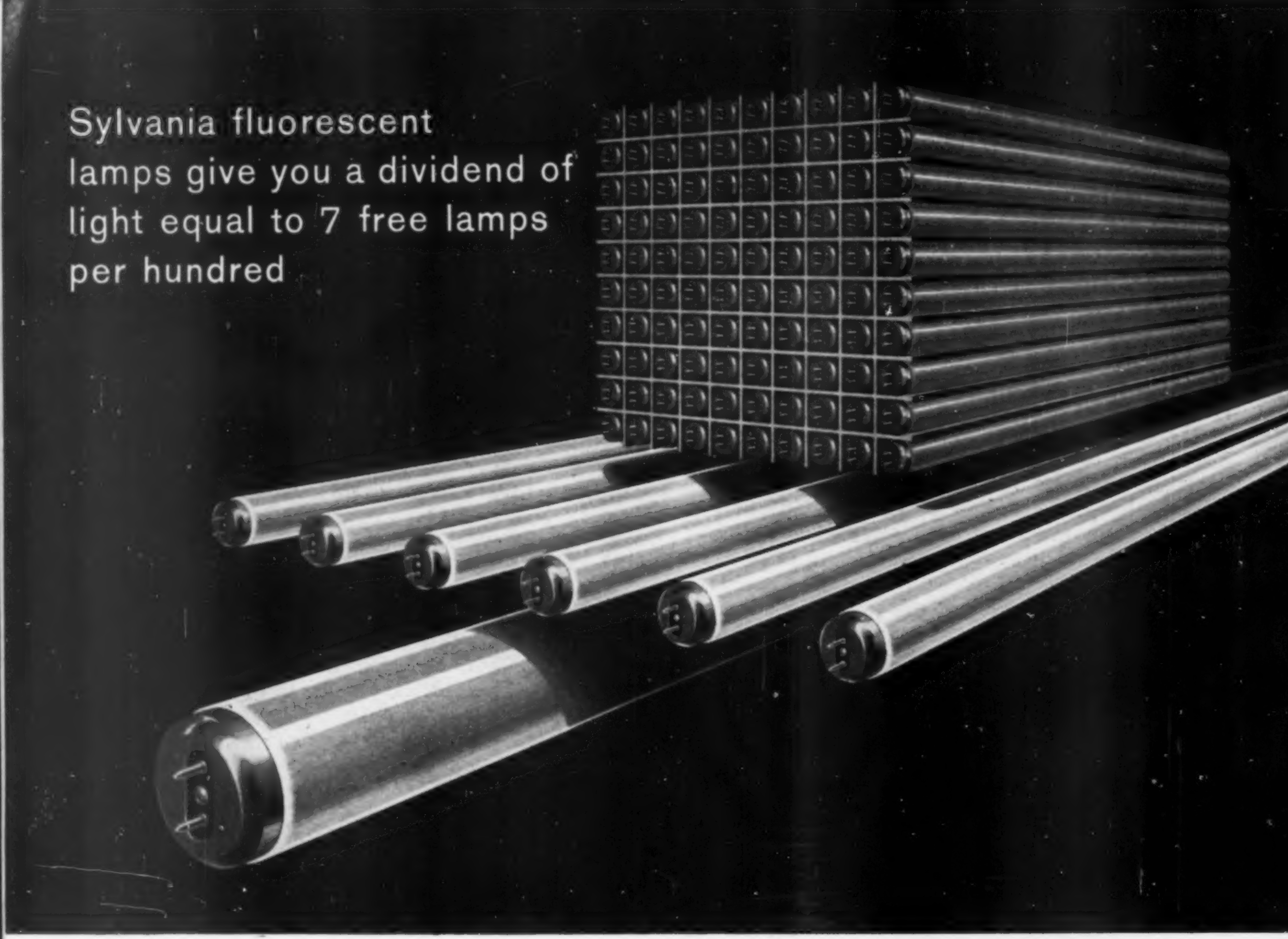
If such plans grow, it could boost FM broadcasting, which is already showing signs of revival.

• • •

Marketing Briefs

Flavored drinks will soon start coming from three Coca-Cola-owned bottling plants—in Chicago, San Francisco, and Boston. Fanta, as the flavored drinks are called, will come in five flavors, will sell at around present Coca-Cola prices, says Morton S. Hodgson, Jr., vice-president. Fanta has had a good overseas marketing run, Hodgson reports.

Abraham & Straus, big Brooklyn member of Federated Dept. Stores, is planning a $5-million expansion—into the old Namm-Loeser store. A&S bought the Namm-Loeser property last summer.



Sylvania fluorescent lamps consistently deliver more light throughout useful life

Another reason why

Sylvania Fluorescents give you more light at lower cost than all other brands

Advanced engineering makes Sylvania fluorescent lamps superior in many ways—makes light a better tool of production to increase profits

Sylvania lamps deliver more light when new. And they continue to maintain their greater light output throughout useful life by as much as 7%.

For example, at 3,000 hours, in a single-shift operation, 100 Sylvania lamps deliver the light output of about 107 ordinary fluorescents. In effect, you get a Sylvania dividend of light equal to 7 free lamps.

Moreover, this dividend of light means you get more light-per-lamp from the power you buy.

Because of their greater maintained light output, Sylvania fluorescent lamps offer more opportunities for economy. They extend the period between lamp replacements... they reduce work interruption . . . and cut labor costs.

This is another example of how Sylvania builds extra value into fluorescent lamps to help cut your lighting and operating costs.

Let your local Sylvania Representative show you how Sylvania's superiority can save you time and money. Call him today or write:

Sylvania Lighting Products
Division of Sylvania Electric Products Inc.
60 Boston St., Dept. 8L-1408, Salem, Mass.
In Canada: Sylvania Electric (Canada) Ltd.
Shell Tower Building, Montreal

SYLVANIA Lighting Products

make light a better tool for profits

LIGHTING • TELEVISION • RADIO • ELECTRONICS • PHOTOGRAPHY • ATOMIC ENERGY • CHEMISTRY-METALLURGY

Puffing Up Canadian Cigarettes

A growing market and new competition is forcing the dignified Canadian tobacco industry to become a little more boastful about its products (right).

Canadian cigarettes have jogged along tidily—rather like a mile runner at the half mark—for the past decade. They have moved efficiently, but quietly, ahead, with none of the flailing and puffing over claims and counterclaims that has marked U. S. competition this year (BW—Jun.14'58,p52).

But such dignified progress is becoming a thing of the past. Last fall, a big newcomer, Rothmans of Pall Mall Canada, Ltd., crashed the Canadian market. Now Canada is getting a dose of the razzle-dazzle selling that the U. S. accepts as a matter of course. The big South African concern of British origin even has ruffled the giants.

The stakes look small by U. S. standards. Canada smoked some 30-billion cigarettes last year against roughly 410-billion (domestic consumption) in this country. In dollars, Canada has a $600-million industry, compared with the U. S.' $5-billion.

• **Fast Growth—**But Canada has its own lures. The 30-billion consumption represents nearly an 89% increase in 10 years, against a 17.5% increase in the U. S. Canada's per capita consumption (persons 15 years and over) of 2,690 is a 54% gain since 1948, while U. S. per capita consumption of about 3,500 is 7% ahead of 10 years ago.

Latest recognition of the Canadian market potential came two weeks ago when Philip Morris, Inc., announced its purchase of most of the capital stock of Benson & Hedges (Canada) Ltd. The deal gives it the Parliament and Benson & Hedges brands in Canada.

Philip Morris makes it plain it is going after the Canadian market in earnest. But, ironically, it can't sell its prize U. S. brands, Marlboro and Philip Morris, because a big Canadian company holds rights to these brands.

• **Brand Confusion—**To the outsider, the brand picture in Canada is as confusing as the selling tactics.

You might expect that Rothmans of Pall Mall would have the Pall Mall brand. But in Canada that brand belongs to Imperial Tobacco Co., largely owned by the British-American Tobacco Co., which in turn was a branch of the old American Tobacco Co. Imperial, through its subsidiary Tuckett Tobacco Co., also owns Canadian trade-mark rights to the Philip Morris and Marlboro brand names.

U. S. brands are sold in Canada in a variety of ways. In addition to the Canadian brands, Imperial, or its subsidiaries, makes Philip Morris, Lucky Strike, Herbert Tareyton, Kool, Viceroy, Marlboro; often it uses a different recipe and package from a brand's U. S. counterpart. Imperial Tobacco Sales Co. (Imperial subsidiary) imports Kent and Old Gold. Liggett & Myers imports Chesterfield and L&M through its Canadian subsidiary. So does R. J. Reynolds for Camel and Salem. Independent agents import Reynolds' Winston.

• **High Expectations—**Philip Morris' deal undoubtedly will stir new competition. But Rothmans already has given Canadians a man-sized taste of the hard sell. Though it has been pushing Rothmans King Size filter and Rothmans King Size regular less than a year and in only 50% of the territorial market, it claims 3% of the total. By 1961, it expects to have a third of the market. "It's just a question of time. No one can stop us," says Patrick O'Neil-Dunne, Rothmans' supersalesman and World Technical Director (the equivalent of vice-president in charge of world sales).

• **The Leaders—**Imperial is the unquestioned giant of the Canadian tobacco field. In its 50 years, and with more than 20 brands, it claims "just over 50% of the total Canadian market." Its star brand is Player's Mild, Canada's top seller, but it also has Mayfair, Matinee, Sweet Caporal, Du Maurier, among others.

No. 2 is Macdonald Tobacco, Inc., of

Montreal. This 80-year-old veteran, privately owned, has an estimated 27% of the Canadian market, with Export its champion brand (it also sells Menthol, Daily Mail, Skyways).

Next comes Rock City Tobacco Co., Ltd., of Quebec. Such brands as Black Cat, Sportsman, Craven A bring it some 8% of the market. Like Imperial, Rock City is a British-based concern, of Carreras Ltd., London.

Another newcomer is Canadian Tabacofina, subsidiary of Belgium's Union Financiere Belge des Tabacs.

• **Imperial Tactics**—Traditionally taciturn, Imperial has become somewhat more talkative as the pace of competition increases. Last week, it explained to BUSINESS WEEK some of its techniques.

Over the years, its strategy in introducing a new brand has been to move in quietly and feel its way along. When it brought out a new filter, Matinee, in 1954, it held back, doled out the newcomer to selected dealers in each area. When it felt it had whetted the appetite, it plastered "We Now Have Matinee" signs at all outlets.

Imperial has captured first place for Player's Mild with simple, uncluttered advertising and its terse slogan, Player's Please. The company sticks to a strong Canadian theme. It supports leading Canadian sports and cultural events on both English and French radio and TV.

If Imperial's techniques have seemed leisurely, Macdonald has thrived on what looks like no selling strategy at all. This company operates—as it did nearly a century ago—without apparent salesmanship or mass merchandising methods. Relying almost entirely on the unchanging image of the Highland Lass on its Export brand, Macdonald maintains a fanatical following for "the working man's cigarette."

• **Careful Survey**—Before Rothmans set up shop in Canada, it surveyed the market carefully. Canadians prefer milder blends, smoke almost no burley, but the Canadian-grown Virginia or flue-cured tobacco instead. The considerable processing of the leaf of U. S. cigarettes is almost unknown.

On packaging, Canadian smokers still prefer the British "slide and shell" pack. However, as king-size filters gain, the flip-top box is gaining favor, too.

"Canadians are tough guys, like Australians and South Africans," says O'Neil-Dunne. "They belong to an outdoor race, aren't scared by lung cancer rumors, and so far you can't baffle them with science or surveys. But they do like a longer smoke."

Nevertheless, O'Neil-Dunne maintains, "Canadian buyers almost always catch on to American methods about two or three years after Americans do." Rothmans is staking the future of its brands in Canada on these methods.

• **Strong Pitch**—The strategy is simply

Multiplication by calculator—

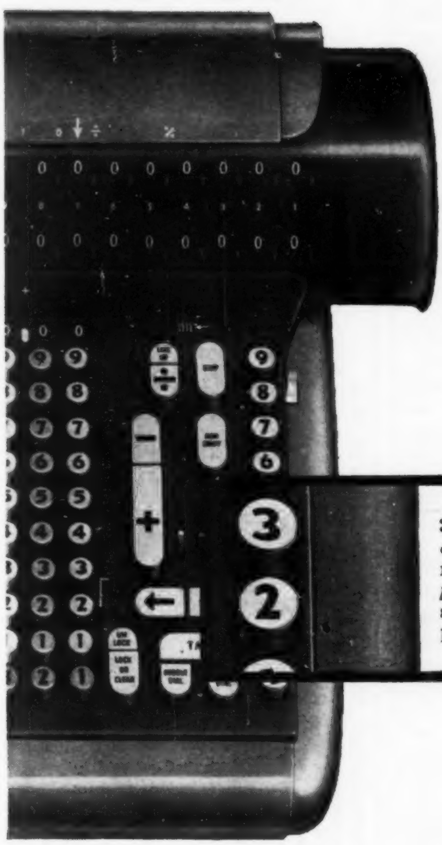
Multiplying is a breeze the Marchant automatic push-button way... there's no waiting for answers*

When multiplying with any other calculator, there's an idle wait while the answer builds up. This "watch and wait" multiplication can be a *figurework bottleneck,* costly in time and money.

But there's *no waiting* with the Marchant calculator. Marchant's exclusive "live" multiplier keys give you the answer as fast as the digits are entered! And when the last multiplier key is touched, it's the *answer,* not the user, that's waiting!

That's Marchant's *push-button multiplication* . . . automatic, simultaneous! You know you're right, too, because only the Marchant shows three dials of proof—for keyboard entry, multiplier and answer.

Your nearby Marchant Man will be glad to show you how the ease and speed of Marchant's automatic *push-button multiplication* can help you cut your figurework costs and boost your figurework output. Or, send the coupon for full information.



* These "live" multiplier keys... exclusive on the Marchant calculator... make possible Marchant's fast, easy *push-button* multiplication...automatic, simultaneous! You just touch the multiplier keys and read the answer!

Modern Management Counts on Marchant

MARCHANT CALCULATORS

Division of SMITH-CORONA MARCHANT INC.

OAKLAND 8, CALIFORNIA

NEW MARCHANT 10-KEY ADDER PERMITS HIGH-SPEED TOUCH-SYSTEM OPERATION

Light, lively touch and compact, simplified keyboard make complete touch system easy. You'll breeze through addition and subtraction with this fully electrified adding machine.

MARCHANT CALCULATORS, OAKLAND 8, CALIFORNIA

- ☐ Please send full information on how the ease, speed and accuracy of Marchant calculators can cut our figurework costs and lighten our figuring burden.
- ☐ Please send full information on the new Marchant 10-key Adder.

B-8

NAME ____________________

PLEASE ATTACH COUPON TO YOUR BUSINESS LETTERHEAD

clues: To The Solution of Management Men's Problems

Published: weekly — closes 12 days in advance.

Rate—$10.15 per line ($5.08 per line for position wanted ads), minimum 2 lines. Allow 5 average words as line; count 3 words for box number.

ADDRESS BOX NO. REPLIES TO: Box No. Classified Adv. Div. of this publication. Send to office nearest you. NEW YORK 36: P. O. Box 12 CHICAGO 11: 520 N. Michigan Ave. SAN FRANCISCO 4: 68 Post St.

POSITION VACANT

Sales Director—Electric Motors & Gearmotors, Required for Middle West operation. Most complete line possible, with major price benefits, substantial remuneration and prospects for outstanding man. Resume to—Newman Electric Motors Inc., 357 Wilson Avenue, Newark 5, New Jersey.

SELLING OPPORTUNITY WANTED

Manufacturer's Agent for Florida & Southern States will represent, canvas goods, flags & pennants, school supplies, sporting goods or related lines. L. E. Demming, Box 4366 Sunrise Station, Ft. Lauderdale, Fla.

SPECIAL SERVICES

Responsible, experienced drilling contractor-oil producer specializing in oil property acquisition, wildcatting, development, operation and disposal offers a completely integrated organization to supervise, service and manage oil properties of any size in West, North and Central Texas. Inquiries are invited for individuals, estates, trusts, partnerships, joint ventures, etc. References furnished. Gilchrist Drilling Company, Box 469, Abilene, Texas. ORchard 2-2875.

Quebec Manufrcturer Has Precision Metal Working facilities available for the manufacture of your product or components for the Canadian market. Highly trained male and female labor skilled in precision metal working available immediately. Will consider production of your product on a licensing, royalty or other basis. SS-8567, Business Week.

Build Foreign Sales With Marketing Research. Overseas Business Services, a unit of McGraw-Hill International Corp., plans and executes confidential market studies and marketing surveys for companies who want to know where and how to sell more of their products abroad. For details write: Overseas Business Services, McGraw-Hill, 330 West 42nd Street, New York 36.

REGISTERED PATENT ATTORNEY

Patent Information Book without obligation. G. Miller, 88 BW-1, Warner Bldg., Wash. D.C.

BUSINESS OPPORTUNITY

200% Collateral on industrial machinery loans in Mexico paying 12%. Financial institution guarantees on loans paying 8%. One to three years. BO-8570, Business Week.

CAPITAL TO INVEST

Commercial and Real Estate Financing. 1st & 2nd Mortgages, Construction Loans, Chattel Loans on Machinery, Equipment, Fixtures & Inventory, Sale & Leaseback. Present Financing Consolidated and increased. Payments Reduced. Receivable Discounting. Re-Discounting and Installment Financing. Long-Term Subordinated Note and Debenture Financing. New Ventures Financed. Promotional Financing. U. S. & Canada. Sy Field Co., 1457 Broadway, New York, N. Y. WI 7-7395.

this: Push the swing to filters. As in the U.S., all major gains in Canadian cigarette sales last year were in filter brands. Filters accounted for a bare 1% of the Canadian market in 1954; last year they reached 35%, and may get to 40% or 45% this year.

So O'Neil-Dunne is pushing hard "Canada's first king-size filter." Big ads, bold claims tell the "round-the-world" Rothmans story. And it has filled a notable void in Canadian promotion by emphasizing health and safety. "Naturally, less tars and nicotine," the ads proclaim.

Imperial has speeded up its leisurely, though shrewd, pace. It reacted fast to the advent of Rothmans King Size filter by bringing out Mayfair, its own king-size filter brand.

Rothmans claims that the group invented the king-size filter in 1951, before its Canadian days. It gives credit for the term "king-size" to Frank Riggio, son of the former American Tobacco Co. chief, whose tobacco company is now part of the Rothman chain. Imperial retorts that way back in 1909, it was advertising its Pall Mall in Canada as "the London luxury, H.I.M. the King's Size."

• **Handouts**—Rothmans is wooing the buying public with direct mail coupons and giveaways to women's groups and businessmen's luncheons—in fact, it has dispensed cartons so freely that a competitor remarks, "It's going to be tough to sell the cigarettes now."

It also is wooing jobbers, growers, even local cartage people. Rothmans has offered to pay the cost of altering all vending machines to hold the new king-size flip-top package. It has established a Gold Leaf Trophy for Ontario tobacco growers. And it has been throwing parties for jobbers and their employees. This tactic drove Imperial to an unprecedented step: It gave a reception for its jobbers, too.

Imperial's American-born president, Edward C. Wood, grants imperturbably, "Oh yes, Rothmans' promotional ideas are pretty good. Twenty years ago we tried a few of them with much success when we established some of our strongest brands."

So far, Macdonald appears unmoved by the new contender. Walter C. Stewart, 76-year-old president, has never granted a press interview. Instead of hot promotion, it goes in for philanthropies such as the founding and financing of a college. But it has reacted to Rothmans' tactics by matching Rothmans' easier billing terms to jobbers this summer.

• **Cost**—The war is a costly one. The norm for Canadian cigarette advertising has run about 7¢ to 10¢ per 1,000 cigarettes. Now it's estimated at between 50¢ and $1 per 1,000. The industry recognizes this can't last. END

ADVERTISERS IN THIS ISSUE

Index for Business Week August 2, 1958

ADVERTISING SALES STAFF

Midwestern Advertising Sales Manager
John P. Taylor—Chicago

Eastern Advertising Sales Manager
C. C. Randolph—New York

Atlanta 3....Douglas C. Billian, 134 Peachtree St., N. W. Jackson 3-6951
Boston 16....Kent Sanger, Park Square Bldg., Hubbard 2-7160
Chicago 11...Herbert M. Higgins, William F. Holbrook, James E. McShane, Robert Sidur, 520 N. Michigan Ave., Mohawk 4-5800
Cleveland 13....William C. Bradford, John G. Cashin, 55 Public Square, Superior 1-7000
Dallas 2....Gordon L. Jones, Vaughn Bldg., Riverside 7-5117
Denver 2....John W. Patten, Mile High Center, 1740 Broadway, Alpine 5-2981
Detroit 26....G. Robert Griswold, Richard J. McGurk, Penobscot Bldg., Woodward 2-1793
Los Angeles 17....Alfred L. Blessing, 1125 West Sixth St., Huntley 2-5450
New York 36....Harold E. Choate, Fred R. Emerson, John H. Glover, John F. Juraschek, A. T. Ofstie, John H. Stevenson, 500 5th Ave., Oxford 5-5959
Philadelphia 3....R. Bernard Alexander, David S. Conner, Six Penn Center Plaza, Locust 8-4330.
Pittsburgh 22.... John R. Thomas, Oliver Bldg., Atlantic 1-4705
St. Louis 8....John F. Boomer, Continental Bldg., 3615 Olive St., Jefferson 5-4867
San Francisco 4....John W. Otterson, 68 Post St., Douglas 2-4600
Great Britain....Norman Strick, McGraw-Hill House, 95 Farringdon St., London, E. C. 4
Europe....Michael R. Zeynel, Am Leonhardsbrunn 12 Frankfurt/Main, Germany

The Treasury's Attack of Cold Feet

It's a great pity that the Administration waited until the hectic closing days of Congress to face up to the fact that the federal debt ceiling will have to be raised. By doing so, it has missed an opportunity to straighten out an unnecessary and embarrassing problem in federal finances. Moreover, it is running the risk of hobbling some of its most vital programs with artificial restrictions on spending.

From the first day that Congress met last January, everyone has known that the government was headed into a period of deficit financing. The business recession and the demands of the defense program made that inevitable. And with the national debt already jammed up against the present "permanent" ceiling of $275-billion, anyone capable of doing addition could work out the arithmetic.

But the Administration apparently let Sen. Harry F. Byrd, chairman of the Senate Finance Committee, scare it into a state of paralysis. Byrd has constituted himself the watchdog of federal spending, and his idea of how to enforce economies is to resist all efforts to raise the debt ceiling—even when Congress already has authorized the spending of the money.

Instead of grasping the nettle early in the session, the Administration played for time by asking for—and getting—a temporary increase of $5-billion last January. Then it waited until the last minute to make up its mind about requesting a permanent change. And instead of asking for an increase big enough to allow a little leeway in the management of its finances, it now has requested only the absolute minimum that it hopes will let it squeeze by. Treasury Secy. Robert B. Anderson is recommending a permanent rise in the ceiling of $10-billion, plus a $3-billion temporary rise good only through next June 30. This recommendation, in our opinion, is for the Byrds.

In the current fiscal year, the federal government will run a deficit variously estimated at $10-billion to $12-billion. Moreover, from now until next December it will be going through the period when tax collections hit their seasonal low. To face this situation with only $13-billion of leeway in the Treasury's borrowing power is to ask for trouble.

It was this kind of pinchpenny management that forced the Defense Dept. to cancel contracts and hold up legitimate payments to contractors last year—just before the Sputniks went up and the recession started. By being too timorous in its requests the Administration now is opening the way for the same sort of thing again this year.

The Administration is not to blame for the deficit, and it should not let itself be jockeyed into the position of pleading with Congress to provide funds that already have been voted. It can and should point out to Congress and to the country that the whole idea of a ceiling is a contradiction in terms anyhow, an attempt by Congress to deny with one measure what it has approved with others.

As things stand now, it is too late to do much but vote the Anderson recommendation and hope for the best. But when the new Congress convenes, one of the first items of its business should be to review the whole subject of the ceiling and stop this annual silliness of granting raises a penny at a time. The U. S. has too many responsibilities and it faces too many real dangers to play this charade any more.

The Profit Squeeze

If "profitless prosperity" in 1957 was bad, profitless recession in 1958 has been a lot worse. In the first quarter of this year, after-tax profits were down to an annual rate of $15.5-billion from a first-quarter 1957 rate of $23-billion.

With profits taking that kind of beating, U. S. business nevertheless maintained dividend payments to stockholders at close to peak levels through the recession. First-quarter dividends flowered out this year at a rate of $12.5-billion—the same rate as during the first quarter of 1957, and only a little below the $12.7-billion rate of last year's third quarter. That steady payment of dividends, by most companies, did much to counter the impact of the recession, both by helping to keep personal income and personal consumption high and by sustaining investors' confidence and, with it, a stable and vigorous investment market.

But if most shareholders have scarcely felt the profit squeeze, businesses themselves have been cruelly twisted. The consequence of maintaining dividends has been to pull retained earnings down near the vanishing point. In the first quarter, undistributed profits dropped to an annual rate of $3-billion from a year-ago level of $10.6-billion. In fact, you have to go all the way back to 1940 to find retained earnings at so low a level as in the first quarter of this year.

How to get profits up is the main problem facing business today. Slashing wages is by and large ruled out—both by wage contracts and by the likelihood that it would help wreck sales. Boosting prices isn't easy in the present state of competition—and would, in any case, feed inflation and breed future trouble.

For individual companies, and even for individual industries, one answer lies in pushing forward with the programs designed to cut costs and step up the efficiency of operations. But for business as a whole, the real answer to this problem—as to so many others—won't come until the economy once again resumes its growth trend. For the U. S. is committed to growth, and falling profits are only one of the penalties we pay for failure to keep growing.